LOCAL GOVERNMENT CENTER HEALTHTRUST, LLC

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

FINANCIAL STATEMENTS

and

REQUIRED SUPPLEMENTARY INFORMATION

December 31, 2012 and 2011

With Independent Auditor's Report

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

INDEX

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INDEPENDENT AUDITOR'S REPORT

To The Board of Managers of
Local Government Center HealthTrust, LLC
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

Report on the Financial Statements

We have audited the accompanying financial statements of Local Government Center HealthTrust, LLC (A Wholly-Owned Subsidiary of Local Government Center, Inc.) (HealthTrust) and its discretely presented component unit, which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HealthTrust and its discretely presented component unit as of December 31, 2012 and 2011, and the changes in its net position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Correction of Error

As discussed in Note 18 to the financial statements, an error resulting in understatement of amounts previously reported for claims reserve liability and the claims incurred expense as of December 31, 2011, was discovered by management of HealthTrust during the current year. Accordingly, amounts reported for claims reserve liability and the claims incurred expense have been restated in the 2011 financial statements now presented, and an adjustment has been made to net position as of December 31, 2011, to correct the error. Our opinion is not modified with respect to that matter.

Emphasis of Matters

As noted in the Nature of Operations section of the footnotes to the financial statements, during the year ended December 31, 2012, HealthTrust became a majority equity owner of Local Government Center Real Estate, Inc. (LGCRE). The assets and all activity of LGCRE are included in these financial statements as it is a discretely presented component unit. HealthTrust accounts for its interest in LGCRE using the equity method. Our opinion is not modified with respect to this matter.

As noted in Note 16 to the financial statements, the HealthTrust Board of Managers transferred of all the assets, liabilities and ongoing operations of HealthTrust to HealthTrust, Inc. effective September 1, 2013. Following that transaction, the HealthTrust, LLC will be dissolved.

Other Matters

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 4 through 17, reconciliation of claims liabilities by type of contract on pages 43 and 44, and ten-year claims development information on pages 45 and 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2013, on our consideration of HealthTrust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering HealthTrust's internal control over financial reporting and compliance.

Berry Dunn McNeil & Parker, LLC

Manchester, New Hampshire
October 28, 2013

Overview:

Local Government Center HealthTrust, LLC (HealthTrust) offers employee benefit coverage options to its participating groups (hereafter "Members"). HealthTrust operates under New Hampshire RSA 5-B. This statute and the HealthTrust By-Laws permit all political subdivisions of the State of New Hampshire, and their instrumentalities, to participate in its pooled risk management services.

From 2003 until November of 2012, the Local Government Center Board of Directors governed the operations of HealthTrust. In November 2012, the Local Government Center (LGC) Board of Directors separated the governance of HealthTrust by establishing a HealthTrust Board of Managers (Board) to independently govern the Local Government Center HealthTrust, LLC.

HealthTrust's mission is to provide high quality, cost-effective employee benefit products and services for public employers and employees in New Hampshire in order to reduce costs through pooling strategies with a commitment to education, health promotion and disease prevention.

HealthTrust operates as a limited liability corporation, with its income not subject to federal income taxation under Internal Revenue Code Section 115. HealthTrust believes that operating without profit seeking contributes to its ability to deliver products to public sector employers and employees at lower rates than might otherwise be obtained for comparable products within the commercial marketplace.

HealthTrust receives its operational, management and administrative services from its parent organization, the Local Government Center. HealthTrust is wholly owned by LGC. HealthTrust's financial statements are based on a calendar year.

HealthTrust and Anthem Blue Cross and Blue Shield (Anthem) entered into a contract extension effective January 1, 2009 through June 30, 2014. This is a continuation of their long term contractual relationship since 1984. Under this contract, Anthem provides claims settlement, medical management services, and access to a comprehensive provider network for HealthTrust. HealthTrust bears the financial risk of the coverage agreement with members for medical, dental and short-term disability coverage. HealthTrust's covered enrollees have health care cards with both Anthem's and HealthTrust's logo. HealthTrust works collaboratively with Anthem to provide a full-range of medical plan options to meet the changing requirements of the public sector. Together we bring focus to public sector issues and concerns to better meet the public sector's healthcare needs. Under this agreement, HealthTrust is the public sector primary source for distribution of Anthem's medical products in New Hampshire, except where otherwise provided by law.

Discussion of the Basic Financial Statements:

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

Statement of Financial Position

This statement provides information about HealthTrust's assets, liabilities and net position as of the end of its fiscal year. The majority of HealthTrust's assets are in the "current asset" category, meaning that they are either cash, can be converted to cash quickly, or are expected to become cash soon.

The liabilities reflect claims paid by contracted third party administrators in 2012 but not reported to HealthTrust until 2013, amounts owed to outside companies for 2012 services that were paid in 2013, amounts on deposit with HealthTrust as part of the self-funded plus program, amounts calculated by qualified actuarial consultants as reasonable estimates for claims incurred but not yet reported to the claims administrators, amounts required to be returned to present and past members, and other accrued expenses. Net position identifies the difference between assets and liabilities and represents investments in Local Government Center Real Estate, Inc. (LGCRE) and capital assets along with unrestricted net position. HealthTrust's governing board, with advice from its consulting actuary, annually reviews the proper level of capital reserve (capital adequacy) it needs to maintain in order to protect HealthTrust from the risks of unpredictable claim fluctuations. Through this process, the LGC Board of Directors established a designated net position target level equal to a Risk Based Capital ratio (RBC) of 4.2. In September 2012, the LGC Board of Directors lowered that target to an RBC of 3.75 which remained the HealthTrust target through December 31, 2012. The RBC formula was developed by the National Association of Insurance Commissioners in conjunction with the American Academy of Actuaries and is the de facto standard for measuring capital adequacy of reserves for health insurance entities. As such, HealthTrust has utilized the RBC ratio even though it is not regulated by either of these entities. In 2013, the HealthTrust Board of Managers amended HealthTrust's designated net position target level policy to set target capital reserve levels ("using actuarial advice, the board's fiduciary duties, and within the limits permissible by law"). As a result of the New Hampshire Bureau of Securities Regulation Hearing Officer's Order dated August 16, 2012, HealthTrust is required to maintain a capital reserve no greater than either the amount that would result in an RBC ratio of 3.0 or 15% of claims, whichever is lower.

Statement of Revenues, Expenses, and Changes in Net Position

The results of HealthTrust's operations are shown on this statement. This statement provides information about the level of contributions, reinsurance, claims and operating expenses and transfers for the fiscal year. Information about other sources of income and other expenses is provided. Lastly, this statement sets forth HealthTrust's change in net position for the year.

Statement of Cash Flows

This statement reviews how HealthTrust's cash balance changed during the fiscal year. It is divided into three different areas explaining where HealthTrust provided or used cash during the year. These areas relate to HealthTrust's operations, investing activities, and capital and related financing activities (sale and acquisition of capital assets). It substantiates and reconciles the increase or decrease in HealthTrust's cash position.

Operating Results:

HealthTrust’s operating loss for 2012 was $50,338,739. Including nonoperating revenue and expenses, net position decreased by $41,056,803 during 2012. HealthTrust’s operating loss includes recognition of a declared return of surplus (Contribution Holiday) of $20,806,163 and a contingent liability of $33,200,000 and declared a return of 2012 surplus of $13,963,954. The Contribution Holiday was declared by the LGC Board of Directors on October 12, 2012 to return undesignated net position as of December 31, 2011. The liability of $33,200,000 reflects the amount of unrestricted net position as of December 31, 2010 that the Bureau of Security Regulations Hearing Officer’s Order required be returned to HealthTrust Members. HealthTrust distributed the $33,000,000 on August 27, 2013. The $13,963,954 return of 2012 surplus was declared by the HealthTrust, Inc. Board of Directors on October 17, 2013 to return undesignated net position as of December 31, 2012. During 2011, operating income, as restated, was $16,563,506; including nonoperating revenue and expenses, net position, as restated, increased $18,798,223.

After receiving the audit results for the prior year, the governing board reviews the balance of unrestricted net position to identify the amount available to return to participating member groups. Based on its initial review of the 2011 yearend financial statements, at its March 6, 2012 meeting, the LGC Board of Directors voted to apply 66.7% of unrestricted net position which totaled $5,657,000, to the July 2012 pool renewal in the form of a rate credit. At its September 12, 2012 meeting, the LGC Board of Directors voted to decrease the Risk Based Capital (RBC) ratio from 4.2 to 3.75 and directed management to recommend a method to return the difference to the participating risk pool groups. At its October 12, 2012 meeting, the LGC Board of Directors reviewed the results of the 2011 audit, the effect of the RBC adjustment from 4.2 to 3.75 and the prior commitment to apply $5,657,000 to the July 2012 pool renewal. Based on this review and on information from the consulting actuary and the finance committee, the LGC Board of Directors declared a return of surplus (net assets) of $20,806,163 to be distributed to participating member groups between December 2012 and August 2014. On October 17, 2013, HealthTrust, Inc., the successor-in-interest to the Local Government Center HealthTrust, LLC’s pooled risk management program, reviewed the results of the 2012 audit and declared a surplus of $13,963,954 be returned to its participating political subdivisions.

HealthTrust's assets increased $26,808,990 from December 31, 2011. Cash and cash equivalents increased $19,769,938 (the Statement of Cash Flows identifies inflows and outflows of cash and cash equivalents). During 2012, HealthTrust's investment securities increased by $820,206, primarily due to unrealized gains on securities. During 2012, the market value of HealthTrust's portfolio increased $1,305,939. During 2012, HealthTrust acquired additional software and equipment totaling approximately $229,295. The majority of the acquisitions related to upgrading the hardware infrastructure.

Liabilities increased $67,865,793 from 2011 levels. The major changes are recognition of a return of unrestricted net position through a contribution holiday payable of $18,193,754, a liability of $33,200,000 and $13,963,954, and a contingent liability of $548,160. There was also an increase in health claims reserves of $2,132,369. Dental claims reserves decreased by $1,614. Net position decreased $41,056,803.

Net operating revenues for 2012 increased $10,430,439 from 2011 levels or about 2.5%. Rates charged for health coverage increased as a result of the growth in healthcare cost trends. Administrative costs were slightly higher as the result of increased administrative rates. In the Statements of Cash Flows, the cash provided by operating activities is lower as the result of the distribution of a $2,612,409 return of net position (contribution holiday), increased paid claims and higher other expenses.

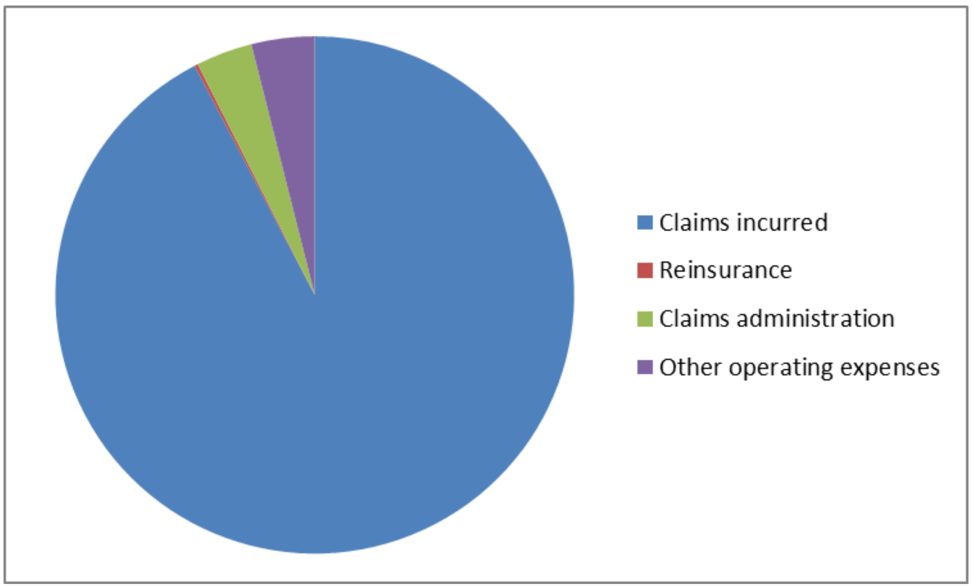
As a whole, the healthcare industry experienced rate increases during this same period. These rate increases are attributable to the continually rising costs of technology advances, new drugs, increased utilization, consumer demand for new technology and drugs, Medicaid cost shifting, and increased provider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

As a result of the Bureau of Security Regulation Hearing Officer’s Order, effective December 1, 2012, HealthTrust re-initiated the purchase of stop loss excess coverage to help defer the impact of large claims. With this coverage HealthTrust retains the first $1,000,000 of each claim and the stop loss carrier reimburses HealthTrust for any amounts exceeding $1,000,000. The annual cost of reinsurance and the related assessments is estimated to be $4,800,000. As of December 31, 2012, no claims exceeded $1,000,000. HealthTrust had previously purchased such reinsurance through June 30, 2010. At that time, HealthTrust paid .5% of contributions for reinsurance. HealthTrust eliminated the purchase of stop loss reinsurance as of July 1, 2010 after asking the actuary to assess the risk of the elimination of this coverage. The actuary’s opinion noted HealthTrust had never sustained a claim over $1,000,000 from its inception in 1986. The actuary also noted HealthTrust’s level of reserves (of 4.2 Risk Based Capital at that time) and size gave it the ability to eliminate this coverage and the resulting recurring cost of purchasing reinsurance. Eliminating the purchase of reinsurance reduces the annual cost of coverage to member groups. However, in 2012, HealthTrust returned to the practice of purchasing reinsurance and incurring the cost of reinsurance related assessments in order to comply with the Bureau of Security Regulation Hearing Officer’s Order.

Administrative costs increased as the result of an increase in the third-party claims administrator rates. This was anticipated as the prior rates expired in January 2012 for dental claims administration and on July 1, 2012 for health claims administration.

Operating expenses other than contribution holiday declared, contingent liability expense and contribution holiday expense decreased 2.4% from 2011 levels. Expenses as a percent of contributions in 2012 and 2011 are:

	2012	2011	Change
Claims incurred	**88.6%**	88.8%	(2.6)%
Reinsurance	**0.07%**	-%	100%
Claims administration	**3.4%**	3.4%	(0.1)%
Other operating expenses	**4.0%**	3.9%	2.6%



HealthTrust had an increase in cash and cash equivalents for the year ended December 31, 2012. As seen on the Statement of Cash Flows, $17,673,619 was provided by operating activities, while $2,325,614 was received from net proceeds from investing activities, and $229,295 was used for capital financing activities. Since HealthTrust's claims payments require ongoing cash flow, HealthTrust has several policies to insure its cash flow needs are met. These policies address the level of cash:

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

HealthTrust maintained sufficient cash and investments to meet these policies during 2012. All cash is maintained in interest bearing, collateralized accounts at all times. At December 31, 2012, HealthTrust had approximately 84 days of cash on hand. The Board of Directors deems this to be a sufficient level of cash on hand to meet obligations and to provide ample time to liquidate investments, should the need arise. The duration of the portfolio, as calculated by the investment managers, is 3.03 years and 2.9 years at December 31, 2012 and 2011, respectively.

As provided for under the Governmental Accounting Standards Board's provisions, HealthTrust reflects net position in two categories, unrestricted and invested in capital assets. The amount invested in capital assets reflects the amount invested in LGCRE, equipment and other capital assets (computer software, hardware, furniture, etc.), net of depreciation. The amount in unrestricted net position reflects all other categories of net position. As described in Note 3, these amounts are segregated into several categories as provided for by the HealthTrust Board of Managers. This includes amounts for target reserves (as permitted) to protect the participating risk groups from unanticipated events such as large claims volume that was unanticipated in the rating, the need for capital improvements that would not need to be immediately funded through the rates, unexpected decline in the value of invested funds, or other similar unanticipated events. At December 31, 2012 the amount established for this purpose is 15% of claims as required in the Bureau of Security Regulation Hearing Officer's Order which required no greater than the lower of 15% of claims or a Risk Based Capital of 3.0. As 15% of claims ($55,829,071) is lower than RBC of 3.0 ($64,349,769), the amount reflected for unanticipated events is $55,829,071. This constitutes an RBC of 2.6. Unrestricted net assets also include the unrealized gain (loss) on marking investments to market value.

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

Changes in Participating Risk Pool Groups

HealthTrust closely watches changes in the number of participating groups and the number of covered enrollees, both in total and by plan as indicators. These indicators are important factors in administering programs, and could potentially affect claim volume. Significant shifts in the plan options selected at the Member and enrollee level can impact claims projections and future trend development. For example, a shift to plans with increased cost share or network incentives could indicate reduced claims costs from the rating period projections. An increase in the number of covered enrollees could create more participation in health management programs, resulting in additional incentive dollars being paid as well as the need for additional capacity to service the expanded enrollee base.

<u>Size and By Product:</u>

As of December 31, 2012, HealthTrust covered 75,140 unique covered persons participating in at least one of the following coverages: medical, dental, short-term disability, long-term disability and life insurance. These covered persons represent employees, spouses, dependents and retirees. Medical coverage total enrollment increased slightly to 57,100 at December 31, 2012, just under a 1% increase. Indemnity enrollment equals 4% of the covered persons, POS enrollment equaled 34%, HMO enrollment equaled 51%, MediComp III coverage was at 10% and HDHP (High Deductible Health Plan) enrollment remained minimal with 1% of the covered employees enrolled. Additionally, HealthTrust's self-funded Short-Term Disability pool saw an increase of 17% in total enrollment. Life and Long-Term

Disability, insured through Madison Life Insurance Company in partnership with National Insurance Services, Inc., saw decreases in the number of total covered persons of 1.5% for Life coverage and 2.3% for Long-Term Disability between the periods of December 2011 and December 2012.

This table represents changes in the number of covered persons from 2009 to 2012.

	2012	2011	2010	2009
Medical	**57,110**	56,564	57,074	61,717
Dental	**55,323**	56,147	58,758	54,144
Life	**7,242**	7,353	7,785	8,128
Short-term disability	**3,281**	2,803	2,859	2,912
Long-term disability	**3,971**	4,066	4,303	4,250

Risks and Uncertainties

Participation: HealthTrust contracts with participating groups for coverage and the associated contribution rates on an annual basis for the upcoming coverage year. HealthTrust Bylaws provide that a Member may withdraw from coverage at any time, if proper notice is given as outlined in the HealthTrust Bylaws. Therefore, HealthTrust does not maintain any multi-year contracts with its Members. However, Members generally maintain coverage for a full-annual cycle making any changes on their plan's anniversary date which is either on January 1 or July 1. As a protection against adverse selection, if a Member withdraws from HealthTrust, they are required to wait two years before becoming eligible to rejoin.

Market Share: HealthTrust operates in a marketplace where there is targeted competition. HealthTrust estimates its current enrolled HealthTrust employer groups to be 62% of the total eligible number of groups in the NH public sector marketplace for medical coverage. HealthTrust provides active renewals for current Members and for eligible groups seeking new coverage. Due to the extremely competitive environment, HealthTrust expects to continue to see some movement between carriers on a regular basis.

Rating: HealthTrust employs recognized benefits and actuarial firms for advice regarding the overall revenue and the resulting rates to be established for its coverage lines at each renewal. Since HealthTrust operates without seeking a profit, the philosophy of the rating process is to raise only an amount of revenue necessary to meet HealthTrust's needs for payment of claims, administration, prudent reserves, and health management expenses. As with any actuarial prediction, there is a degree of uncertainty as to whether a particular rating will be sufficient in any one year to meet all of the needs of HealthTrust for that year. Similarly, there exists in the rating process the possibility that rates established in any year will produce higher revenue than is needed. HealthTrust believes there is a high degree of likelihood that the revenue raised and the rates established over time will be adequate to meet HealthTrust's obligations to its Members and their employees.

Regulatory: In 2011, the Secretary of State’s Bureau of Securities Regulation (BSR) brought an administrative petition against the HealthTrust, Local Government Center and its affiliate, predecessor and subsidiary entities alleging that LGC failed to return excess capital to its participating political subdivisions and impermissibly subsidized the workers' compensation pool with contributions from HealthTrust; that the corporate structure of the Local Government Center and its subsidiaries allegedly violates RSA 5-B:5.

A hearing was held on these allegations from April 30, 2012 through May 11, 2012. On August 16, 2012, the Hearing Officer issued a decision (the Order) in the administrative proceeding which found for the BSR on these issues. HealthTrust and the other respondents have appealed the Order to the New Hampshire Supreme Court where the case is still pending.

The financial statements include the disclosure of the ordered repayment of $17.1 million from Property-Liability Trust to HealthTrust but consistent with the guidance in Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) Topic 450 *Contingencies* they do not include the accrual of such income to HealthTrust or the loss contingency to Property-Liability Trust because management cannot conclude at this time that such repayment is probable or reasonably estimable as a result of the constitutional and statutory issues raised in the pending appeal. In addition, because of the constitutional issues raised on appeal related to the retroactive application of law, the amount of any repayment by LGC Property-Liability Trust to HealthTrust resulting from an adverse final judgment cannot be reasonably estimated until the appeal process is concluded. As a result, the financial statements include this disclosure related to the $17.1 million repayment but do not include the accrual of any such income to HealthTrust or of any loss contingency to LGC Property-Liability Trust consistent with the guidance included in FASB ASC Topic 450 *Contingencies.*

Investments

HealthTrust's investment portfolio is managed by Wellington Management pursuant to an Investment Policy that is adopted by the HealthTrust Board of Managers. Strategic Asset Advisors is engaged by HealthTrust for investment advisory services. Like other investors, HealthTrust is exposed to the risk that the investments it holds will diminish in market value from the price paid. This occurs primarily when interest rates rise. Conversely, as interest rates fall, the market value of HealthTrust's portfolio improves.

Legislation

During the CY 2013 Legislative Session, a session law was enacted to establish "a study committee to review the hearings officer's report with regard to the New Hampshire Local Government Center and to study potential changes to RSA 5-B". The law calls for a Study Committee with representation from the House of Representatives and the Senate. The committee is charged with reviewing the hearing officer's order and with studying potential changes to RSA 5-B.

Outlook

HealthTrust and its Board of Managers continue to focus on providing high quality, comprehensive programs at the lowest possible cost while maintaining programs to provide solid education and training that focus on improving and maintaining the health of the enrolled population. HealthTrust continues to offer the *Slice of Life* program along with many administrative services that we believe set us apart in the New Hampshire public sector marketplace. Below are a few of the highlighted programs and services that continue to set HealthTrust apart from the marketplace options:

Continued Plan Choice and Flexibility: While Members currently have a menu of more than thirty-five different medical plan options and multiple prescription drug plan components to choose from, we continue to work with Anthem, HealthTrust's third-party administrator, to explore the marketplace for plans and programs that are innovative and original. In addition, the flexibility that HealthTrust extends by allowing an array of plan options to be offered enables HealthTrust Groups to develop benefits and compensation strategies targeting specific budget goals while still permitting the flexibility of choice.

In 2012, HealthTrust continued to see interest in its site-of-service (SOS) medical plan option. A site-of-service plan is an option for employers who may have already made the transition to programs that include deductibles for certain types of covered services, inpatient services and high cost diagnostics, for example, or for those groups looking to make a significant change to their current benefit structure. HealthTrust's SOS plans include a deductible component for certain types of care: inpatient care, outpatient surgical treatment, high cost diagnostics and laboratory tests. However, enrollees in the programs are provided with an alternative to reduce their out-of-pocket costs when choosing a lower-cost independent laboratory or ambulatory surgery center to receive services.

Retiree Billing Services: HealthTrust Members may elect for HealthTrust to provide billing administration for their retirees' medical and dental coverage on the Member's behalf. If elected, HealthTrust handles all aspects of retiree billing, including sending monthly invoices, collecting payments, coordinating with New Hampshire Retirement System payments, and following up on unpaid accounts. As of December 2012, HealthTrust invoiced 1509 retirees on behalf of Members.

Retiree Specialist: HealthTrust offers the services of a Retiree Specialist who assists Members and their retirees alike with a multitude of questions and issues relative to retiree eligibility, health coverage, Medicare, the New Hampshire Retirement System medical subsidy, and more. On behalf of Groups and their retirees, the Retiree Specialist works closely with the New Hampshire Retirement System relative to issues of eligibility and medical subsidy. Additionally, HealthTrust offers four workshops a year to retirees turning age 65, providing valuable information regarding the Medicare supplement plan and enrollment assistance to almost 70 retirees and their spouses. Member Benefit Administrators are also offered sessions on retiree eligibility and coverage during two available workshops a year.

COBRA Administration and Billing Services: For all HealthTrust Members offering HealthTrust-sponsored medical and/or dental plan coverage, HealthTrust administers the various required COBRA notices, including the Initial COBRA Notice, Notice of Qualifying Event, and COBRA Termination Notice. As an added service for groups that elect COBRA billing services, HealthTrust will issue invoices directly to COBRA enrollees and collect COBRA payment directly from COBRA enrollees, thereby relieving HealthTrust Members of the administration of collecting COBRA contribution payments. In 2012, HealthTrust handled COBRA billing administration for up to 157 COBRA beneficiaries.

Transition Care **and** ***Survivor Care*****:** These two programs offered through HealthTrust are designed to continue providing medical and/or dental benefits to covered family members of employees who die while they are active employees of a HealthTrust Members. *Transition Care* pays the required contribution for an employee's surviving covered family members for COBRA or retiree coverage for up to 12 months after an employee's death. In the event that the death occurred while the employee was performing his or her job responsibilities, the *Survivor Care* benefit will continue to cover the required contributions toward medical and/or dental coverage for an employee's previously enrolled family members until certain cut-off events occur. In 2012, HealthTrust provided *Transition Care* benefits to 18 surviving families and *Survivor Care* to 3 surviving families.

On-site Services: HealthTrust strives to continually meet the needs of Members and enrollees. During 2012, Benefits & Coverage Advisors, Member Relations Advisors and Health & Safety Advisors met with 2,034 enrollees at the risk groups' locations to provide a variety of trainings and benefit educations.

Workshops: During 2012, the Enrollee Services Department presented various workshops designed to assist Member Benefits Administrators perform their responsibilities. Benefit Administrators from more than 140 Member Groups attended these Workshops, which included the Learning Track–Workshop Series for New Benefits Administrators, and the annual Benefits Administrator Workshop to provide Benefits Administrators with updates and new relevant information such as Federal Healthcare Reform.

Claims Advocate: Covered individuals who need guidance with claims processing can call on HealthTrust's Enrollee Services to assist by facilitating communication between the enrollee and the health plan partner (Anthem, Caremark, and Delta Dental). In 2012, Enrollee Services provided such claims advocate support to hundreds of covered individuals.

HealthTrust Incentive Program: The HealthTrust Incentive Program is extended to medically-covered enrollees as an incentive to watch for billing errors by monitoring their healthcare providers' invoices and processed claims statements. With the incentive program, enrollees may be eligible for 50 percent of the savings for each claim error that is identified and corrected, up to a $1,000 maximum.

Ongoing Communications: HealthTrust strives to serve as a resource for information regarding benefits administration. HealthTrust regularly communicates with Members through various newsletters and our comprehensive website. These resources keep Members up to date on available programs and services.

EyeMed Discounts: HealthTrust provides access to quality, discounted eye care services through EyeMed Vision Care, an extensive network of private practicing optometrists, ophthalmologists, opticians, and the optical retailer LensCrafters®. The EyeMed program bills itself as placing its emphasis on "choice, quality, value, and service excellence."

HealthTrust's *Slice of Life* program: HealthTrust's *Slice of Life* program provides benefits that have been shown to boost morale, reduce absenteeism, and increase cost savings resulting from fewer healthcare claims. Any individuals who are covered by a HealthTrust medical program may avail themselves, at no additional cost, of valuable health management support and incentives. Health Management workshops provide an avenue for educating Risk Pool Groups' employees about the *Slice of Life* program, and its many components. One piece of the *Slice of Life* program is the *onmyway* confidential Health Assessment (HA) questionnaire designed to help assess enrollee's health from year to year. Taking the HA questionnaire is a completely voluntary and confidential process. After completing the HA, a personalized health report is sent to the enrollee identifying areas of health risk and information about how those risks can be reduced to maximize an individual's health status. In 2012, 18,240 HealthTrust enrollees, spouses and retirees participated in the *Slice of Life* Health Assessment program and received a financial incentive for completing this assessment as well as qualifying for access to other *Slice of Life* program components. Supporting this gateway program is a full comprehensive menu of health management offerings. Utilization of various program components provides valuable health management support and incentives to help improve and maintain healthy lifestyles. The following are some of the key components to the *Slice of Life* program:

- Health Coaching provides identified individuals with some additional support to effectively manage chronic conditions or develop strategies to support changes in lifestyle such as becoming more active, losing weight or reducing stress.

- *Health Awareness Program* provides calendar year reimbursements for eligible programs covering a wide variety of health and safety related issues and activities that are geared toward reaping the rewards of a healthier lifestyle.

- LifeResources - Employee Assistance Program offers comprehensive mental health counseling and referral services for issues such as stress management, parenting, addictions, referral services for helping to find housing options for aging parents, and providing answers about managing credit card debt.

- *Slice of Life* newsletters are quarterly publications sent to covered individuals, containing information related to important health and wellness issues plus important health plan news.

- Flu Vaccine Program provides a reimbursement program for onsite flu shot clinics for covered individuals.

- *Coordinator Connection* is a quarterly newsletter designed to provide a variety of resources to assist Wellness Coordinators with wellness planning efforts at the individual group level.

- *WELL*Dollars Discretionary Grant Program helps groups implement appropriate onsite wellness activities that work to reduce employees' overall health risks through grants that are applied for from HealthTrust on an annual basis.

- *Health & Safety Coordinator Academy* is designed to provide HealthTrust Members' health and safety leaders with the necessary knowledge and resources, which will enable them to guide their co-workers at their worksite to become more aware of the issues that affect their health and safety both at work and at home. To enhance the utilization and understanding of the *Slice of Life* program in 2012, HealthTrust continued to focus on our new Health & Safety Coordinator Academy. The program is designed to provide HealthTrust Members health and safety leaders with the necessary knowledge and resources that will enable them to guide their co-workers to become more aware of the issues that affect health and safety both at work and at home. To date, HealthTrust has 76 coordinators providing health and safety campaigns at their worksites. The goal is to train thirty new coordinators per year while still keeping the existing coordinators engaged by meeting with them annually and continuing to provide them with $500 per year to use toward their annual health and safety campaigns. Consultation Services provided by HealthTrust's Health & Safety Advisors help design and implement group wellness programs. They can analyze a health claims history and customize a health management program according to a group's needs.

Web Services: HealthTrust's groups are kept educated by providing helpful information electronically on its robust website at **www.healthtrustnh.org**. The website offers HealthTrust's Members and Enrollees a comprehensive location for accessing program and service related information and also includes password protected sections for connecting to Enrollees' confidential coverage information through *eConnect. eConnect* is a secure part of the website and is available to designated key contacts of Members with medical and/or dental plan coverage. It allows Members to submit electronic transactions such as ID card requests, salary changes, notice of changes in the number of covered persons, and more. Additionally, Members can download and print many enrollment forms, and access certain resources such as the Member-specific Transmittal and Carrier Table, and the *Benefits Administrator Manual*.

Enrollees with medical and/or dental plan coverage have access to *eMemberServices*, a secure part of HealthTrust’s website. This feature allows Enrollees to complete and submit interactive forms, such as ID card requests, address changes, download printable forms and view items in the Library online.

Flexible Spending Account Administration: During 2012, HealthTrust continued to have a strong Flexible Spending Account (FSA) program. A longtime advocate of this tax savings benefit for employers and employees, HealthTrust brought these services in house effective January 1, 2006. HealthTrust offers groups the simplest form of a Flexible Benefits Plan – the Pre Tax Payroll Deduction of Insurance Premiums (Premium Conversion), as well as the administration of Healthcare Flexible Spending and Dependent Care Reimbursement Accounts.

A total of 17 new groups selected HealthTrust during 2012 to administer their FSA program, bringing the total number of groups offering HealthTrust’s FSA to 244. Paper claims volume decreased in 2012, with the number of paper claims processed going from 17,300 in 2011 to 16,832 in 2012. In 2012, there was a 2.4% increase over 2011 in the total dollar value of flexible spending claims processed by HealthTrust.

HealthTrust will continue to educate groups on the advantages of offering an FSA and expects to increase the number of participants with each renewal.

Healthcare Reform and Other Federal and State Benefits Programs: During 2012, the Benefits and Coverage team continued to monitor and assist with the implementation of changes required by the Federal healthcare reform law which becomes effective on a staggered basis until full implementation is required in 2014. Through presentations at HealthTrust Benefits Administrator workshops, LGC Annual Conference, and various other conferences and seminars for associations of school and municipal officials and administrators, we educated and assisted HealthTrust Members regarding the requirements that became effective in 2012 and those that need to be planned for over the next few years. Our educational efforts also included publication of articles, newsletters and various other correspondence and presentation of webinars on the primary aspects of healthcare reform impacting HealthTrust groups and their employees.

Effective for plan years beginning in 2011, HealthTrust group medical plan certificates were amended to reflect that most preventive services are now covered in full without any required cost sharing by the employee in the form of co-pays or deductibles. An additional amendment was prepared during 2012 regarding enhancements to preventive services for women that become effective for plan years beginning in 2013.

The Benefits and Coverage team continued to monitor and analyze various new regulations and related guidance issued with respect to other pending healthcare reform changes. These included guidance on (i) the new W-2 reporting requirements with respect to group health plan benefits that became effective for Tax Year 2012 for large employers who issued more than 250 W-2s for 2011; (ii) the new uniform Summary of Benefits and Coverage requirement that became effective at the end of 2012 for January plan year groups. This requires employers and plan administrators to provide a uniform summary description of the benefits to all eligible employees, early retirees and COBRA beneficiaries each year at open enrollment (and at other specified times, including upon request) with respect to each group health plan option offered by the employer. HealthTrust worked closely with Anthem, Caremark, and HealthTrust Groups during 2012 to prepare for and assist with the implementation of this significant new requirement; and (iii) the employer shared responsibility ("play or pay") penalty provisions that will take effect beginning January 1, 2014 for applicable "large employers" (those with 50 or more full-time equivalent employees). These rules require that group health plan coverage be offered to all "full-time employees" (those who average 30 or more hours a week) to avoid exposure to potential penalties.

HealthTrust also monitored New Hampshire legislative proposals regarding healthcare exchanges that are scheduled to begin operation in 2014 under the federal healthcare reform law. As of the end of 2012, the New Hampshire legislature not only had declined to accept federal grant money to research the implementation of a state exchange, but also had passed legislation expressly rejecting the establishment of a State Exchange.

The failure to make significant steps toward the implementation of a New Hampshire Exchange by the end of 2012 means that either a Federally-facilitated Exchange or a Federal/State Partnership Exchange will be established during 2013 and become operational in New Hampshire in 2014.

In addition to these Federal healthcare reform related projects, Risk Pool Operations continued to assist HealthTrust groups that participate in the Federal Retiree Drug Subsidy program with respect to prescription drug benefits provided to Medicare eligible retirees.

Prescription Benefit Program Administration: HealthTrust serves as the administrator of the State of New Hampshire's and the Community College System of New Hampshire's (CCSNH) prescription benefit management through Caremark. This collaboration provides HealthTrust, the State of New Hampshire and the CCSNH the benefit of combining prescription benefit services for a large population, gaining better pricing than if each were to procure these services individually.

As the prescription benefit administrator for the State of New Hampshire and CCSNH, HealthTrust maintains the State of New Hampshire's enrollment and provides this enrollment to Caremark. HealthTrust answers enrollment and prescription benefit questions from State of New Hampshire's eligible enrollees and provides health promotion trainings to State of New Hampshire departments and staff.

During 2012 and 2011, the State of New Hampshire prescription benefit claims and related third-party (non-HealthTrust) administrative expenses totaled $52,768,927 and $66,828,615, respectively. The CCSNH joined the program on July 1, 2011. During CY 2012, the prescription benefit claims and related third-party administration expenses for the CCSNH totaled $2,215,627. During the six-month period ended December 31, 2011, the prescription benefit claims and related third-party administrative expenses for the CCSNH totaled $1,092,701. HealthTrust paid these expenses on behalf of the State of New Hampshire and the CCSNH; the State of New Hampshire and CCSNH then reimbursed HealthTrust for these costs. In addition, under HealthTrust's agreement with Caremark, HealthTrust received $600,000 from Caremark during each of the years ended December 31, 2012 and 2011 toward HealthTrust's costs of administering this program, including servicing these accounts, consulting, computer programming and other related expenses. The State of New Hampshire and CCSNH do not pay any of HealthTrust's cost of administering the program.

Conclusion: HealthTrust distinguishes itself from commercial insurers through its close relationship to its Members, beginning at the Board level. Since the Board is made up of school, municipal, and county representation at the employee, management and elected representative levels its decisions are focused directly on the needs and values of the Members. In thinking about services to Members, HealthTrust takes a holistic approach to meeting and exceeding the employee benefit coverage and service needs of the Members.

HealthTrust is committed to provide high quality, cost-effective employee benefit products and services for public employers and employees in New Hampshire in order to reduce costs through pooling strategies with a commitment to education, health promotion and disease prevention.

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

Statements of Financial Position

December 31, 2012 and 2011

ASSETS

	Local Government Center HealthTrust, LLC December 31 2012	Local Government Center HealthTrust, LLC December 31 Restated 2011	Local Government Center Real Estate, Inc. (LGCRE) December 31 2012	Local Government Center Real Estate, Inc. (LGCRE) December 31 2011
Current assets				
Cash and cash equivalents	**$ 92,507,404**	$ 72,737,466	**$ 242,917**	$ 160,418
Investment securities	**47,703,711**	46,883,505	**-**	-
Investment in external investment pool	**5,959,389**	5,952,905	**-**	-
Contributions receivable	**5,687,639**	4,176,568	**-**	-
Accounts receivable	**2,818,157**	3,879,403	**-**	-
Accrued interest receivable	**255,884**	299,869	**-**	-
Prepaid expenses	**306,061**	135,024	**6,267**	3,968
Total current assets	**155,238,245**	134,064,740	**249,184**	164,386
Non-current assets				
Deposits	**1,407,738**	1,407,738	**-**	-
Property and equipment, net	**1,397,588**	1,935,720	**7,853,736**	8,085,304
Investment in LGCRE	**6,173,617**	-	**-**	-
Total non-current assets	**8,978,943**	3,343,458	**7,853,736**	8,085,304
Total assets	**$ 164,217,188**	$ 137,408,198	**$ 8,102,920**	$ 8,249,690

LIABILITIES AND NET POSITION

	Local Government Center HealthTrust, LLC		Local Government Center Real Estate, Inc. (LGCRE)	
	December 31		December 31	
	2012	Restated 2011	**2012**	2011
Current liabilities				
Claims payable	**$ 11,078,701**	$ 10,931,851	**$ -**	$ -
Claims reserves	**21,425,474**	19,294,719*	**-**	-
Deposits held	**267,898**	272,748	**-**	-
Contribution holiday payable	**18,193,754**	-	**-**	-
Accounts payable and accrued expenses	**1,067,601**	1,966,542	**35,502**	18,588
Accounts payable reinsurance	**98,921**	-		
Accounts payable reinsurance related State of New Hampshire assessments	**190,890**	-	**-**	-
Due to LGC	**218,825**	146,588	**34,459**	4,307
Unearned contributions	**562,734**	338,671	**-**	-
Contingent BSR legal fees liability	**548,160**	-	-	-
Return of surplus liability	**33,200,000**	-		
Return of 2012 surplus liability	**13,963,954**	-	**-**	-
Total current liabilities and total liabilities	**100,816,912**	32,951,119	**69,961**	22,895
Commitments and contingencies (Notes 3, 9, 14 and 15)				
Net position				
Unrestricted	**52,878,476**	100,876,703*	**179,223**	141,491
Unrealized gain on investment securities	**2,950,595**	1,644,656		
Invested in LGCRE	**6,173,617**	-	**-**	-
Invested in capital assets	**1,397,588**	1,935,720	**7,853,736**	8,085,304
Total net position	**63,400,276**	104,457,079	**8,032,959**	8,226,795
Total liabilities and net position	**$ 164,217,188**	$ 137,408,198	**$ 8,102,920**	$ 8,249,690

* Restated; see Note 18.

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

Statements of Revenues, Expenses, and Changes in Net Position

Years Ended December 31, 2012 and 2011

	Local Government Center HealthTrust, LLC December 31		Local Government Center Real Estate, Inc. (LGCRE) December 31	
	2012	Restated 2011	**2012**	2011
Operating revenues				
Contributions earned from participating risk pool groups	**$ 420,053,915**	$ 409,621,713	**$ -**	$ -
Self-funded plus program - net	**341,188**	172,224	**-**	-
Rent	**-**	-	**443,704**	391,026
Other revenues	**422,328**	593,055	**5,611**	6,289
Net operating revenues	**420,817,431**	410,386,992	**449,315**	397,315
Operating expenses				
Claims incurred	**372,193,809**	363,836,546*	**-**	-
Administrative fees	**14,104,692**	14,029,602	**-**	-
Health management support and initiatives	**4,498,064**	6,058,864		
Reinsurance	**98,921**	-	**-**	-
Reinsurance related State of New Hampshire assessments	**190,890**	-		
Depreciation and amortization	**767,427**	754,826	**252,969**	284,998
Contribution holiday	**20,806,163**	-	**-**	-
Contingent BSR legal fees liability	**548,160**	-	**-**	-
Return of surplus liability expense	**33,200,000**	-	**-**	-
Return of 2012 surplus liability expense	**13,963,954**	-		
Other expenses	**10,784,090**	9,143,648	**390,309**	389,617
Total operating expenses	**471,156,170**	393,823,486	**643,278**	674,615
Operating (loss) income	**(50,338,739)**	16,563,506	**(193,963)**	(277,300)
Nonoperating income				
Investment income	**1,802,380**	1,696,541	**-**	-
Interest income	**-**	-	**127**	163
Net increase in fair value of investment securities	**1,305,939**	538,176	**-**	-
(Decrease) increase before transfers	**(47,230,420)**	18,798,223	**(193,836)**	(277,137)
Investment in LGCRE	**6,173,617**	-	**-**	-
(Decrease) increase in net position	**(41,056,803)**	18,798,223	**(193,836)**	(277,137)
Net position, beginning of year, as previously stated	**106,155,206**	85,658,856	**8,226,795**	8,503,932
Restatement of net position	**(1,698,127)**	-	**-**	-
Net position, beginning of year, as restated	**104,457,079**	85,658,856	**8,226,795**	8,503,932
Net position, end of year	**$ 63,400,276**	$ 104,457,079	**$ 8,032,959**	$ 8,226,795

* Restated; see Note 18.

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

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

Statements of Cash Flows

Years Ended December 31, 2012 and 2011

	Local Government Center HealthTrust, LLC		Local Government Center Real Estate, Inc. (LGCRE)	
	December 31		December 31	
	2012	2011	**2012**	2011
Cash flows from operating activities				
Contributions collected from participating risk pool groups	**$ 418,766,906**	$ 410,920,626	**$ -**	$ -
Cash received from other revenues	**422,329**	593,055	**-**	-
Claims paid	**(369,409,419)**	(365,249,281)	**-**	-
Rental income collected	**-**	-	**443,704**	391,026
Other revenue received	**-**	-	**5,611**	6,289
Services purchased from LGC for operations	**(4,894,829)**	(4,580,278)	**(113,705)**	(134,863)
Administrative expenses paid	**(13,499,501)**	(13,640,384)	**-**	-
Health management support and initiatives paid	**(5,423,760)**	(6,845,799)	**-**	-
State of New Hampshire Medicare D Penalty reimbursement	**-**	2,000,000	**-**	-
Other expenses paid	**(5,980,666)**	(3,873,035)	**(231,837)**	(300,165)
Contribution holiday payments	**(2,612,409)**	-	-	-
Net cash provided by self-funded plus program	**304,968**	116,777	-	-
Net cash provided (used) by operating activities	**17,673,619**	19,441,681	**103,773**	(37,713)
Cash flows from investing activities				
Proceeds from the sale of investment securities	**15,435,551**	7,130,807	-	-
Cash payments for the purchase of investment securities	**(14,773,350)**	(7,642,260)	-	-
Interest and dividends on investment securities	**1,669,897**	1,740,970	-	-
Decrease in external investment pool	**(6,484)**	(4,307)		
Received from interest	**-**	-	**127**	163
Net cash provided by investing activities	**2,325,614**	1,225,210	**127**	163
Cash flows from capital and related financing activities				
Proceeds from sale of equipment	**-**	-	**-**	4,520
Payments for the acquisition of property and equipment	**(229,295)**	(453,156)	**(21,401)**	(65,014)
Net cash used by capital and related financing activities	**(229,295)**	(453,156)	**(21,401)**	(60,494)
Net increase (decrease) in cash and cash equivalents	**19,769,938**	20,213,735	**82,499**	(98,044)
Cash and cash equivalents, beginning of year	**72,737,466**	52,523,731	**160,418**	258,462
Cash and cash equivalents, end of year	**$ 92,507,404**	$ 72,737,466	**$ 242,917**	$ 160,418

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

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

Statements of Cash Flows (Concluded)

Years Ended December 31, 2012 and 2011

	Local Government Center HealthTrust, LLC December 31		Local Government Center Real Estate, Inc. (LGCRE) December 31	
	2012	Restated 2011	**2012**	2011
Reconciliation of operating (loss) income to net cash provided (used) by operating activities				
Operating (loss) income	**$ (50,338,739)**	$ 16,563,506	**$ (193,963)**	$ (277,300)
Adjustments to reconcile operating (loss) income to net cash provided (used) by operating activities				
Depreciation and amortization	**767,427**	754,826	**252,969**	284,998
Decrease (increase) in				
Contributions receivable	**(1,511,071)**	1,189,793	**-**	-
Accounts receivable	**1,061,246**	779,050	**-**	-
Accrued interest receivable	**-**	2,000,000	**-**	-
Prepaid expenses	**(171,037)**	102,652	**(2,299)**	227
(Decrease) increase in				
Claims payable	**146,850**	(505,460)	**-**	-
Claims reserves	**2,130,755**	(1,430,548)	**-**	-
Contribution holiday payable	**18,193,754**	-	**-**	-
Return of surplus liability	**33,200,000**	-	**-**	-
Return of 2012 surplus liability	**13,963,954**	-		
Contingent BSR legal fees liability	**548,160**	-	**-**	-
Deposits held	**(4,850)**	10,883	**-**	-
Accounts payable and accrued expenses	**(898,941)**	(102,823)	**16,913**	(2,941)
Accounts payable reinsurance expense	**98,921**	(3,319)	-	-
Accounts payable reinsurance related State of New Hampshire assessments	**190,890**	-		
Unearned contributions	**224,063**	109,120	-	-
Due to LGC	**72,237**	(25,999)	**30,153**	(42,697)
Net cash provided (used) by operating activities	**$ 17,673,619**	$ 19,441,681	**$ 103,773**	$ (37,713)
Supplemental disclosure of noncash capital financing activities				
Cost of the acquisition of property and equipment	**$ 229,295**	$ 453,156	**$ 21,401**	$ 33,053
Plus: Payments on short-term trade accounts used to finance acquisition of property and equipment	**-**	-	**-**	31,961
Payment for the acquisition of property and equipment	**$ 229,295**	$ 453,156	**$ 21,401**	$ 65,014

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

Nature of Operations

Local Government Center HealthTrust, LLC (HealthTrust) is a wholly-owned subsidiary of Local Government Center, Inc. (LGC). HealthTrust provides employee benefits coverage and operates pursuant to RSA 5-B, New Hampshire statutes. In accordance with HealthTrust By-Laws, all political subdivisions of the State of New Hampshire and their instrumentalities are eligible to participate. The HealthTrust Board of Managers governs HealthTrust, effective November 2012. Prior to November 2012 the LGC Board of Directors governed HealthTrust. HealthTrust serves as a cooperative group of local governments voluntarily joining together to finance their exposure to employee healthcare costs. HealthTrust is fully funded by its participating risk groups. HealthTrust covered the following separate individuals among all coverage lines at December 31, 2012 and 2011:

	2012	2011
Medical	**57,110**	56,564
Dental	**55,323**	56,147
Life	**7,242**	7,353
Short-term disability	**3,281**	2,803
Long-term disability	**3,971**	4,066

HealthTrust's mission is to provide high quality, cost-effective employee benefit products and services for public employers and employees in New Hampshire in order to reduce costs through pooling strategies with a commitment to education, health promotion and disease prevention. Trust underwriting and rate setting policies have been established after consultation with actuaries and consultants.

Local Government Center Real Estate, Inc. (LGCRE) was organized February 5, 1988 as a nonprofit corporation for the purpose of acquiring and holding title to real estate. On November 20, 2012, LGC distributed shares of LGCRE back to HealthTrust and LGC Property-Liability Trust. As a result of that distribution, LGCRE is owned by three (3) stockholders. LGC owns 1.24%, HealthTrust owns 76.83% and LGC Property-Liability Trust owns 21.93%. LGCRE leases the real estate to LGC, affiliated companies wholly-owned by LGC, and third parties. The assets and all activity of LGCRE are included in these financial statements as a discretely presented component unit. Complete financial statements for LGCRE can be obtained from LGCRE's office at 25 Triangle Park Drive, Concord, New Hampshire 03301. HealthTrust reports its investment in LGCRE on the equity method.

1. Summary of Significant Accounting Policies

Basis of Presentation

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

LGCRE is, primarily, an internal service fund providing office space to related entities on a cost reimbursement basis. Given HealthTrust's ownership interest in LGCRE along with its intent that owning LGCRE enhances its abilities to provide services, the financial statements of LGCRE have been included as a component unit.

Accounting Standards

On January 1, 2012, HealthTrust adopted GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements". Prior to 2012, HealthTrust had elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board, issued prior to November 30, 1989, that did not conflict or contradict GASB pronouncements. Adoption of this pronouncement did not have a material effect on the financial statements.

Use of Estimates

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

Reclassifications

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 financial statement presentation. Such classifications had no effect on the increase in net position as previously reported. HealthTrust did correct an error in its 2011 financial statements as detailed in Note 18.

Cash Equivalents

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

Investment Securities

Investment securities consist of U.S. Government Sponsored Enterprise Securities, U.S. Treasury notes, corporate notes, municipal obligations, and mutual funds. The securities are carried in the financial statements at fair value. Fair value is determined based upon quoted market prices.

Investment in External Investment Pool

HealthTrust maintains an equity position in an external investment pool sponsored by a government entity, which is carried at fair value. Fair value is determined by HealthTrust's proportionate share of the total fair value of the underlying investment pool's portfolio.

Contributions from Participating Risk Pool Groups

Contributions are generally recognized as revenue on a monthly basis over the participation contract term. The portion of the contributions received in cash that will be earned in the future is deferred and reported as unearned contributions. Accounts and contributions receivable are stated at the amount management expects to collect from outstanding balances. Management considers all accounts and contributions receivable to be collectible; an allowance for doubtful accounts has not been provided.

Reinsurance

Prior to July 1, 2010, HealthTrust used reinsurance agreements to reduce its exposure to large health claims. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge HealthTrust's primary liability of the risks reinsured. HealthTrust does not report reinsured risks as claims incurred unless it is probable that those risks will not be covered by reinsurers. To provide long-term cost savings to members in their annual rates, HealthTrust, with the advice of its consulting actuary, discontinued the purchase of reinsurance as there was sufficient net position to self-insure this risk. Thus, HealthTrust had eliminated the purchase of reinsurance effective July 1, 2010.

As a result of the Bureau of Security Regulation Hearing Officer’s Order, effective December 1, 2012 (Note 15), HealthTrust re-initiated the purchase of reinsurance. With this coverage, HealthTrust retains the first $1,000,000 of each claim incurred after this date and the reinsurance carrier reimburses HealthTrust for any amounts exceeding $1,000,000.

Property and Equipment

Property and equipment with an estimated useful life greater than one year is recorded at cost. The cost of maintenance and repairs is charged to expense as incurred, while renewals, replacement of existing systems, and betterments are capitalized. Upon sale or other disposition of assets, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income. Land is not depreciated.

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

Land improvements	15 years
Buildings and building improvements	31 – 40 years
Office equipment, computer and other	3 – 5 years
Furniture and fixtures	3 – 5 years

Operating Revenues and Expenses

Operating income reported in the financial statements includes revenues and expenses related to the primary, continuing operations of HealthTrust. Principal operating revenues are contributions earned from participating risk pool groups to cover estimated benefit obligations and administrative costs. Principal operating expenses are the costs of providing underwriting and claims payment services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as nonoperating in the financial statements.

A Contribution Holiday of $20,806,163 was declared by the LGC Board of Directors on October 12, 2012 to return undesignated net position as of December 31, 2011. The Return of Surplus of $33,200,000 reflects the amount the Bureau of Security Regulations Hearing Officer's Order required returned to HealthTrust Members for unrestricted net position as of December 31, 2010. A return of 2012 surplus of $13,963,954 was declared by the HealthTrust, Inc. Board of Directors on October 17, 2013 to return undesignated net position as of December 31, 2012. These expenses were deemed to be operating expenses for the year ended December 31, 2012.

LGCRE's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result primarily from rental of property - LGCRE's principal activity. Operating expenses are all expenses incurred in rental operations. Interest income is reported as nonoperating income.

Claims Reserves

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

Income Taxes

HealthTrust and LGCRE are exempt from federal and state income taxes under provisions of the Internal Revenue Code and State law.

2. Cash and Cash Equivalents

HealthTrust and LGCRE maintain their cash in bank deposits and cash management accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 as of December 31, 2012. For HealthTrust, as of December 31, 2012, the bank balance of cash held, in total, in excess of the FDIC limit, was approximately $92,300,000. The balance in excess of the FDIC limit is collateralized with securities held in joint custody with the bank. LGCRE's cash balance did not exceed these limits at December 31, 2012.

3. Net Position

Unrestricted Net Position is available to fund HealthTrust's capital reserves with the balance remaining to be returned to member groups as surplus. Unrestricted net position, for HealthTrust, includes the following at December 31:

	2012	Restated 2011
Board designated net position - Risk Based Capital Ratio of 4.2	**$ N/A**	$ 87,087,130
Board designated net position-capital reserve	**52,878,476**	N/A
Unrealized gain on investment securities	**2,950,595**	1,644,656
Undesignated net position	**-**	13,789,573*
	$ 55,829,071	$ 102,521,359

* Restated; see Note 18.

HealthTrust has set a capital reserve policy to target capital reserve levels using actuarial advice, board fiduciary duties and within the limits permissible by law. The amount of this reserve is a point of contention between HealthTrust and the Hearing Officer's Order resulting from the administrative proceedings as more fully described in Note 15. This Order specifies that HealthTrust must return excess capital to its members if is in excess of the lesser of 15% of claims or a Risk Based Capital ratio of 3.0. As of December 31, 2012, the board designated net position - capital reserve represents the amount of the reserve to be set aside under the Order. HealthTrust has accrued a liability totaling $13,963,954, for funds to be returned to members based on the net position at the end of the 2012 year under this Order.

Regardless of the size or amount of stop loss (reinsurance) protection, there is always the risk of unpredictable claim fluctuations beyond expected levels. The following are some reasons why claims might exceed expected levels: (1) medical trend is significantly higher than expected; (2) a small number of very large randomly occurring claims; (3) influx of new participants that are not as healthy as average; (4) departure of participants that are healthier than average; (5) federal/state legislation that results in higher costs; (6) new technologies/treatments such as high-cost drugs, and advanced imaging techniques; (7) pandemics; (8) natural disasters; and (9) acts of terrorism. In order to protect HealthTrust's participating risk pool groups, and their covered employees and dependents from these potential unexpected costs, HealthTrust designates a certain level of net position to ensure the availability of sufficient capital to cover these risks.

As a result of the Bureau of Securities Regulation Hearing Officer's Order (Note 15), HealthTrust is required to maintain a capital reserve no greater than the amount which would result in a Risk Based Capital (RBC) Ratio of 3.0 or 15% of claims, whichever is lower. As of December 31, 2012, a 3.0 RBC is equivalent to $64,349,769 while 15% of claims is $55,829,071. To comply with the Order, HealthTrust has established the board designated net position – capital reserve, at December 31, 2012, of $55,829,071, which is 15% of claims.

Prior to 2012, the LGC Board of Directors, with advice from its consulting actuary, annually reviewed the proper level of reserve (capital adequacy) it needed to maintain in order to protect HealthTrust from the risks of these unpredictable claim fluctuations. Through this process, the LGC Board of Directors had established a designated net asset target level equal to a Risk Based Capital Ratio of 4.2.

The Risk Based Capital formula was developed by the National Association of Insurance Commissioners in conjunction with the American Academy of Actuaries and is the de facto standard for measuring capital adequacy of reserves for health insurance entities. During 2012, the LGC Board of Directors, with input from its consulting actuary, reduced HealthTrust's designated net asset target level to a Risk Based Capital Ratio of 3.75. To comply with the Bureau of Securities Regulation Hearing Officer's Order, the HealthTrust Board of Managers subsequently amended HealthTrust's policy regarding the target capital reserve level to set it "using actuarial advice, the board's fiduciary duties, and within the limits permissible by law."

At its March 6, 2012 meeting, the LGC Board of Directors voted to apply $5,657,000 (the July Pool's proportional share of 2/3 of the net assets) as a rate credit to the July 2012 pool renewal, thereby lowering the 2012-2013 renewal rates. At the LGC Board of Directors October 12, 2012 meeting, the Board declared additional return of surplus consisting of the balance of the undesignated net assets from the 2011 audited financial statements and the increase of available undesignated net assets resulting from its earlier vote to reduce HealthTrust's capital reserve target from an RBC of 4.2 to an RBC of 3.75. This contribution holiday, which totaled $20,806,163, was reported as an operating expense for 2012. HealthTrust remitted $2,612,409 back to its members during 2012. The remaining balance of $18,193,754 is expected to be returned to members in future years.

Invested in capital assets, for HealthTrust, consists of the following at December 31:

	2012	2011
Investment in property and equipment, net	**$ 1,397,588**	$ 1,935,720
Investment in LGCRE	**6,173,617**	-
	$ 7,571,205	$ 1,935,720

The net position for LGCRE which is invested in capital assets represents the amount of assets which have been invested in property and equipment, net of any depreciation.

4. Investment Securities

Investment securities insured or registered consist of the following at December 31:

	2012			
	Cost	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
U.S. Government Sponsored Enterprise Securities	**$ 9,376,780**	**$ 277,614**	**$ 5,696**	**$ 9,648,698**
U.S. Treasury Notes	**7,846,655**	**198,621**	**5,223**	**8,040,053**
Corporate Notes	**14,983,756**	**1,241,454**	**219**	**16,224,991**
Municipal Obligations	**4,511,465**	**326,127**	**449**	**4,837,143**
Mutual Funds	**8,034,460**	**954,675**	**36,309**	**8,952,826**
Total	**$ 44,753,116**	**$ 2,998,491**	**$ 47,896**	**$ 47,703,711**

	2011			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Government Sponsored Enterprise Securities	$ 10,905,340	$ 278,453	$ -	$ 11,183,793
U.S. Treasury Notes	8,157,262	346,071	-	8,503,333
Corporate Notes	14,229,675	1,000,880	46,556	15,183,999
Municipal Obligations	3,912,111	257,304	787	4,168,628
Mutual Funds	8,034,461	322,084	512,793	7,843,752
Total	$ 45,238,849	$ 2,204,792	$ 560,136	$ 46,883,505

During 2012 and 2011, HealthTrust realized a net gain of $265,449 and $28,624, respectively, from the sale of investment securities. The calculation of the realized gains and losses is independent of a calculation of the net change in the fair value of investment securities. Realized gains and losses on investment securities that have been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investment securities reported in the prior year.

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

	2012	2011
Vanguard 500 Index Fund	**$ 6,010,357**	$ 5,297,514

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. HealthTrust mitigates the risk that the market value of securities will fall due to changes in general interest rates by structuring the portfolio so securities mature to meet the cash requirements for on-going operations, thus avoiding the need to sell securities on the open market prior to maturity.

The cost and fair value of investment securities at December 31, 2012 and 2011, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	2012		2011	
Maturity Dates	**Cost**	**Fair Value**	Cost	Fair Value
Not Applicable	**$ 8,034,460**	**$ 8,952,826**	$ 8,034,461	$ 7,843,752
Within 1 Year	**2,272,987**	**2,296,949**	4,727,764	4,766,704
1 < 5 Years	**14,343,850**	**14,987,352**	10,798,092	11,140,140
5 < 10 Years	**7,840,255**	**8,583,113**	9,939,685	10,822,124
10 + Years	**12,261,564**	**12,883,471**	11,738,847	12,310,785
Total	**$ 44,753,116**	**$ 47,703,711**	$ 45,238,849	$ 46,883,505

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of failure of the counterparty, HealthTrust will not be able to recover the value of its investments that are in the possession of the outside party. At December 31, 2012, HealthTrust did not have any investments subject to custodial credit risk.

Credit Risk

HealthTrust's investment policy mitigates credit risk by limiting investments to investment grade securities and diversifying the portfolio. As of December 31, 2012, HealthTrust's investments were rated as follows:

Investments	Rating	Rating Organization	Fair Value
U.S. Treasury Notes	Aa1	**	$ 8,040,053
U.S. Government Sponsored Enterprises:			
Federal National Mortgage Association	Aa1	**	6,759,414
Governmental National Mortgage Association	Aa1	**	152,303
Federal Home Loan Mortgage Corporation	Aa1	**	2,523,457
Other Agencies	Aa1	**	213,524
Corporate Notes	Aaa	**	6,706,976
Corporate Notes	Aa2	**	288,320
Corporate Notes	Aa3	**	1,156,864
Corporate Notes	A1	**	1,820,260
Corporate Notes	A2	**	800,285
Corporate Notes	A3	**	1,920,814
Corporate Notes	Baa1	**	1,292,243
Corporate Notes	Baa2	**	1,662,820
Corporate Notes	Baa3	**	471,909
Corporate Notes	Ba1	**	104,500
Municipal Obligations	Aaa	**	549,677
Municipal Obligations	Aa2	**	744,752
Municipal Obligations	Aa3	**	981,186
Municipal Obligations	A1	**	1,552,750
Municipal Obligations	A2	**	524,615
Municipal Obligations	A3	**	161,081
Municipal Obligations	Baa1	**	323,082
Mutual Funds	3 stars	Morningstar	7,783,627
Mutual Funds	4 stars	Morningstar	1,169,199
Total			$ 47,703,711

** The rating is based on the lower of Moody's or Standard & Poor's displayed with Moody's nomenclature, where applicable.

At times after purchase, the rating of a security may fall below investment grade and the security may be retained if the risk of default is deemed low by the Investment Manager and Investment Advisor.

5. Investment in External Investment Pool

The investment in external investment pool represents HealthTrust's share of the New Hampshire Public Deposit Investment Pool (NHPDIP), which is reported at fair value. NHPDIP was established under State of New Hampshire Statute, RSA 383:24. The Bank Commissioner, in conjunction with its Advisory Committee, provides regulatory oversight of the investment pool's operations.

6. Premium Deficiency

In accordance with GASB Statement No. 30, "Risk Financing Omnibus," premium deficiencies are required to be calculated and reported by public entity risk pools. At December 31, 2012 and 2011, HealthTrust determined there were no premium deficiencies. Investment income was included as part of the calculation in determining if a premium deficiency existed. HealthTrust's governing board regularly evaluates net asset balances. Participating risk pool group rates are either increased to help protect participating risk pool groups from periods of unanticipated claims volume or decreased in order to return undesignated net position to participating risk pool groups.

7. Property and Equipment

Property and equipment of HealthTrust consists of the following:

	Year Ended December 31, 2012			
	Beginning Balance	**Additions**	**Disposals**	**Ending Balance**
Office equipment	**$ 189,916**	**$ 19,060**	**$ 88,218**	**$ 120,758**
Computer equipment	**3,872,854**	**210,235**	**750,172**	**3,332,917**
	4,062,770	**229,295**	**838,390**	**3,453,675**
Less accumulated depreciation	**2,127,050**	**767,427**	**838,390**	**2,056,087**
	$ 1,935,720	**$ (538,132)**	**$ -**	**$ 1,397,588**

	Year Ended December 31, 2011			
	Beginning Balance	Additions	Disposals	Ending Balance
Office equipment	$ 156,668	$ 33,248	$ -	$ 189,916
Computer equipment	3,452,946	419,908	-	3,872,854
	3,609,614	453,156	-	4,062,770
Less accumulated depreciation	1,372,224	754,826	-	2,127,050
	$ 2,237,390	$ (301,670)	$ -	$ 1,935,720

Property and equipment of LGCRE consists of the following:

	Year Ended December 31, 2012			
	Beginning Balance	**Additions**	**Disposals**	**Ending Balance**
Land	**$ 2,131,136**	**$ -**	**$ -**	**$ 2,131,136**
Land improvements	**141,853**	**-**	**-**	**141,853**
Buildings and building improvements	**7,319,204**	**-**	**-**	**7,319,204**
Equipment	**495,439**	**21,401**	**-**	**516,840**
Furniture and fixtures	**369,990**	**-**	**-**	**369,990**
	10,457,622	**21,401**	**-**	**10,479,023**
Less accumulated depreciation	**2,372,318**	**252,969**	**-**	**2,625,287**
	$ 8,085,304	**$ (231,568)**	**$ -**	**$ 7,853,736**

	Year Ended December 31, 2011			
	Beginning Balance	Additions	Disposals	Ending Balance
Land	$ 2,131,136	$ -	$ -	$ 2,131,136
Land improvements	141,853	-	-	141,853
Buildings and building improvements	7,319,204	-	-	7,319,204
Equipment	600,731	33,053	(138,345)	495,439
Furniture and fixtures	369,990	-	-	369,990
	10,562,914	33,053	(138,345)	10,457,622
Less accumulated depreciation	2,221,145	284,998	(133,825)	2,372,318
	$ 8,341,769	$ (251,945)	$ (4,520)	$ 8,085,304

8. Claims Reserves

As discussed in Note 1, HealthTrust establishes a liability for both reported and unreported covered events, which includes estimates of both future payments of losses and related claim adjustment expenses, both allocated and unallocated. The following represents changes in the aggregate undiscounted claims reserves for HealthTrust during the years ended December 31:

	2012	Restated 2011
Claims reserves at beginning of year	**$ 19,294,719**	$ 20,725,267
Incurred claims and claim adjustment expenses		
Provision for covered events of current year	**374,396,159**	369,517,233*
Adjustments to provision for covered events of prior years	**(2,202,350)**	(5,680,687)
Total incurred claims and claim adjustment expenses	**372,193,809**	363,836,546
Payments of claims and claim adjustment expenses		
Payments attributable to covered events of current year	**(352,751,861)**	(350,018,799)
Payments attributable to covered events of prior years	**(17,311,193)**	(15,248,295)
Total payments	**(370,063,054)**	(365,267,094)
Total claims reserves at end of year	**$ 21,425,474**	$ 19,294,719

* Restated; see Note 18.

Incurred claims and claim adjustment expenses included in claims payable in the statements of financial position as of December 31, 2012 and 2011 are considered to have been paid for purpose of the claims reserves reconciliation as of and for the years ended December 31, 2012 and 2011.

9. Related Party Transactions

HealthTrust leases office space from LGCRE. Rent expense under this arrangement was $218,887 and $194,861 for the years ended December 31, 2012 and 2011, respectively, to cover its share of LGCRE's operating expenses based on HealthTrust's proportional usage of the building. LGCRE has included those amounts as operating revenues in the same year.

LGC is the sole Member in HealthTrust. LGC provides substantially all the administrative and operational services to HealthTrust. Total administrative expenses paid by HealthTrust to LGC during 2012 and 2011 were $10,753,940 and $8,581,253, respectively. These expenses include salaries, benefits, staff expenses, dues, office supplies, insurance coverage and other operational expenses related to the administration of HealthTrust.

LGC is a participating risk group in HealthTrust's risk pool. During the years ended December 31, 2012 and 2011, LGC paid $1,447,379 and $1,695,274, respectively, to HealthTrust for coverage through its pool. In addition, HealthTrust distributed a $57,114 contribution holiday to LGC in December 2012, representing LGC's proportional share of the surplus HealthTrust returned to participating risk groups.

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

Due to the fact that repayment of the promissory note is conditional based on the amount of excess funds available in the workers' compensation pool each year, HealthTrust evaluates whether a receivable should be recorded from the workers' compensation pool annually based upon the calculation outlined in the promissory note. During the years ended December 31, 2012 and 2011, the workers' compensation pool did not generate excess funds that would be available to make a payment on the promissory note. As a result, a receivable has not been reflected in the statement of financial position as of December 31, 2012 or 2011.

10. Reinsurance

Effective December 1, 2012, HealthTrust resumed the purchase of reinsurance which it had previously eliminated effective July 1, 2010. The purchase of reinsurance was reestablished pursuant to the Bureau of Security Regulations Hearing Officer Order requiring HealthTrust to purchase reinsurance.

Through the purchase of reinsurance, HealthTrust limits the maximum net loss that could arise from large risks by reinsuring (ceding) claims exceeding $1,000,000 to other insurers or reinsurers, through the purchase of excess loss reinsurance contracts. Ceded reinsurance is treated as the risk and liability of the assuming companies, though these reinsurance contracts do not relieve HealthTrust from its obligations to participating risk pool groups. Failure of reinsurers to honor their obligations would result in losses to HealthTrust; allowances are established for amounts deemed uncollectible. HealthTrust evaluated the financial condition of its reinsurers and monitored concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. As of December 31, 2012, there were no reinsurance receivables or prepaid reinsurance premium. As HealthTrust did not purchase reinsurance in 2011, there were no reinsurance receivables or prepaid reinsurance premiums at December 31, 2011.

11. Self-Funded Plus Program

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

12. Prescription Benefit Program Administration

HealthTrust serves as the administrator of the State of New Hampshire's and the Community College System of New Hampshire's (CCSNH) prescription benefit management through Caremark. As the prescription benefit administrator for the State of New Hampshire and CCSNH, HealthTrust maintains the State of New Hampshire's enrollment and provides this enrollment to Caremark. HealthTrust answers enrollment and prescription benefit questions from State of New Hampshire eligible enrollees and provides health promotion trainings to State of New Hampshire departments and staff.

During 2012 and 2011, the State of New Hampshire prescription benefit claims and related third-party (non-HealthTrust) administrative expenses totaled $52,751,246 and $66,828,615, respectively. CCSNH joined the program on July 1, 2011. During 2012, CCSNH prescription benefit claims and related third-party administrative expenses totaled $2,215,627.

During the six month period ended December 31, 2011, the prescription benefit claims and related third-party administrative expenses for CCSNH totaled $1,092,701. HealthTrust paid these expenses on behalf of the State of New Hampshire and CCSNH; the State of New Hampshire and CCSNH then reimbursed HealthTrust for these costs. In addition, under HealthTrust's agreement with Caremark, HealthTrust received $600,000 from Caremark during each of the years ended December 31, 2012 and 2011 toward HealthTrust's costs of administering this program. HealthTrust's expenses include staff salaries and benefits, travel, consulting, computer programming and other related expenses. The State of New Hampshire and CCSNH do not pay any of HealthTrust's cost of administering the program.

13. Exemption from Statutory Accounting Practices

HealthTrust and its risk pool were established for the benefit of the political subdivisions of the State of New Hampshire under Title 1, Chapter 5-B of the New Hampshire statutes. As such, HealthTrust is not considered an insurer under the laws of the State, and administration of the activities of HealthTrust shall not constitute conducting an insurance business for purposes of regulation or taxation. At December 31, 2012 and 2011, Statements of Statutory Accounting Practices as promulgated by the National Association of Insurance Commissioners are not applicable to HealthTrust.

14. Risks and Uncertainties

HealthTrust invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the financial statements.

LGCRE maintains commercial insurance coverage for its buildings and improvements. Coverage limits are set at replacement values with customary levels of deductibles.

15. Contingencies

HealthTrust assesses potential liabilities in connection with lawsuits and threatened lawsuits under U.S. generally accepted accounting principles. HealthTrust accrues an estimated loss for loss contingencies if both of the following conditions are met: information available prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. As of December 31, 2012, HealthTrust has accrued a contingent liability in the amount of $548,160 as its portion of the BSR's legal costs and fees in accordance with the Order. HealthTrust expenses legal costs as they are incurred.

In 2011, the Secretary of State's Bureau of Securities Regulation (BSR) brought an administrative petition against LGC and its affiliate, predecessor and subsidiary entities including LGCRE, HealthTrust, LGC Property-Liability Trust (the Respondents), as well as against other individual respondents alleging (as amended in February 2012) that: LGC failed to return excess capital to its participating political subdivisions and impermissibly subsidized the workers' compensation pool with contributions from HealthTrust; that the corporate structure of LGC and its subsidiaries allegedly violates RSA 5-B:5; and that participation in the risk pools allegedly constitutes the sale of unregistered securities by unlicensed broker-dealers, issuer-dealers and agents, and as a result risk pool participation was allegedly sold without required disclosures in violation of the New Hampshire Securities Act. LGC and the other respondents dispute the claims in the petition.

A hearing was held on these charges from April 30, 2012 through May 11, 2012. On August 16, 2012, the Hearing Officer issued a decision (the Order) in the administrative proceeding in which he ordered that the following numbered actions be taken (followed by a bulleted summary of the status of complying with that part of the Order):

1) LGC shall organize its two risk pooled management programs into a form that provides each program with an independent board and its own set of written bylaws within 90 days. According to the Order, failure to do so would result in Local Government Center HealthTrust's and LGC Property-Liability Trust's forfeiture of the statutory exemption from the State's insurance laws and of the exemption from state taxation granted to Pooled Risk Management Programs pursuant to RSA 5-B.

- HealthTrust and LGC Property-Liability Trust have adopted separate bylaws to govern their respective programs.

- HealthTrust and LGC Property-Liability Trust have established separate Boards of Managers to independently govern HealthTrust and LGC Property-Liability Trust.

2) LGC's risk pool management programs shall not require participating members to join or participate in any organization that requires the payment of dues for membership in said organization, nor shall any of the risk pool management programs require members to pay fees, premiums or costs for services not specifically identified and approved in RSA 5-B.

   - HealthTrust and LGC Property-Liability Trust have suspended the membership requirement in New Hampshire Municipal Association, a wholly-owned subsidiary of LGC, as a precondition to participate in their programs.

3) HealthTrust shall return $33,200,000 to members of that program in proportion to each member's contributions no later than September 1, 2013. The order found that this amount represents the excess of earnings and surplus that must be returned to members.

   - HealthTrust has recognized a liability of $33.2 million to return surplus as provided in the Order. HealthTrust intends to distribute the $33.2 million on August 27, 2013.

4) HealthTrust shall immediately return to the practice of purchasing reinsurance.

   - HealthTrust has returned to the practice of purchasing reinsurance.

5) HealthTrust however it may be organized, may retain earnings and surplus in an amount no greater than the lesser of fifteen percent (15%) of claims or a Risk Based Capital ratio of 3.0 as determined by the BSR, based upon the year end audited financial statements of HealthTrust. Any amount of earnings and surplus in excess of this level shall annually be returned in the form of cash, dividends or similar cash equivalents to members. However, the BSR "may upon prior written notice of at least one (1) year impose a higher limit or different methodology for calculating required net assets that may be retained as earnings and surplus not in excess pursuant to RSA 5-B:5, I (c) as long as said methodology is specifically based upon a generally accepted actuarial analysis."

   - HealthTrust has amended its capital reserve policy to read: "HealthTrust will set target capital reserve levels using actuarial advice, the board's fiduciary duties, and within the limits permissible by law;"

   - In 2012, HealthTrust declared returns of 2011 net assets totaling $26,463,163 ($5,657,000 as a rate credit to the July 2012 pool renewal in March which was reported as a credit against contributions earned from participating risk pool groups and $20,806,163 in as an additional return of surplus, contribution holiday, in October. See also Note 3). This is in addition to the $33.2 million return required by the Order which was based on the 2010 financial statements.

6) LGC Property-Liability Trust shall return $3,100,000 to members of that program in proportion to each member’s contributions no later than September 1, 2013. The order found that this amount represents the excess of earnings and surplus that must be returned to members.

   - LGC Property-Liability Trust returned the $3.1 million on August 30, 2013.

7) In the future the LGC’s property and liability risk pool management program, however it may be organized, shall utilize a generally accepted actuarial analysis to determine its required net assets and shall annually return any excess surplus in cash, dividends or their equivalents to members. The generally accepted actuarial analysis must be approved by the BSR.

   - LGC Property-Liability Trust has submitted a request to the BSR to approve the continued use by Property-Liability Trust of a 90% confidence level as the generally accepted actuarial analysis to determine its permitted net asset level.

8) LGC Property-Liability Trust, however it may be organized in the future, shall re-pay the $17.1 million subsidy to HealthTrust’s risk pool management program, however it may be organized, no later than December 1, 2013. Said payment shall terminate and shall satisfy any obligation contained in a note of similar amount executed on June 2, 2011. The funds to make this repayment may be borrowed from an independent entity at commercially reasonable terms in consultation with the BSR. Funds received by the Local Government Center HealthTrust, LLC in repayment of the subsidy, to the extent they constitute amounts in excess of the earnings and surplus permitted to be retained pursuant to the order, shall be returned to members of the HealthTrust risk pool management program.

   - LGC Property-Liability Trust has been considering its options for making the required payment within the December 1, 2013 ordered timeframe.

9) LGC shall, within 90 days of the date of the order, cause LGCRE to convey to the HealthTrust risk pool management program and the LGC Property-Liability Trust pooled risk management program, shares in the ownership of LGCRE in proportion to their initial in kind contributions and subsequent cash contributions. According to the Order, “The realty corporation, in proportionate share, will then be managed by the respective boards of directors of the risk pool management programs for the benefit of those programs.”

   - The shares in LGCRE have been reissued in proportional share to each entity’s contribution to the land and building of LGCRE.

   - LGCRE has established a separate Board of Directors to govern its operations with the Directors appointed by HealthTrust, LGC Property-Liability Trust, and LGC in proportion to each ownership interest in LGCRE.

10) LGC and its subsidiary risk pools did not violate the State's Securities Act, because the risk pool contracts were not securities covered by the act.

11) The allegations against the remaining individual respondents named in the action are dismissed.

12) LGC, HealthTrust, and LGC Property-Liability Trust are found jointly and severally liable for the costs of the investigation in this matter, and all related proceedings, including reasonable attorney fees and are ordered to pay same. The Order sets out a process for determining the amount of such costs based on negotiation, then mediation, and finally a ruling of the Hearing Officer if an agreement cannot be reached.

    - The Hearing Officer, in a subsequent order dated October 17, 2012, determined that it was premature to rule on the amount to be paid to the BSR for fees and costs until the pending appeal has been concluded.

    - A contingent liability in the amount of $548,160 was established at December 31, 2012, for the purpose of paying costs of the Bureau of Security Regulation investigation and reasonable attorney fees. The total liability of $571,000 is shared with LGC Property-Liability Trust.

LGC and the other Respondents filed a petition to appeal the Order to the New Hampshire Supreme Court (Supreme Court) together with a motion to stay the Order pending appeal. The Supreme Court accepted the appeal but denied the stay.

The appeal of the Order is still pending in the Supreme Court. LGC and its affiliated entities filed its brief by August 12, 2013. The Bureau of Security Regulation's reply brief is due September 26, 2013. Oral arguments have yet to be scheduled as of October 28, 2013. A group of former HealthTrust members (the Intervenors) have filed with the Supreme Court a motion to intervene and a request for a stay of the ordered repayment of surplus to members by September 1, 2013. These former members believe they should be included in the group to receive a portion of the $33.2 million to be returned to members under the Order; however, the Order provided for return to members participating in HealthTrust as of the date of the order (August 16, 2012). The Interveners were not members of the HealthTrust as of the date of the order. The Supreme Court denied the former members' motion to intervene and their request for a stay.

Management has assessed the status of this appeal and, as a result of the constitutional and statutory issues raised on appeal, cannot conclude that the repayment of the $17.1 million by LGC Property-Liability Trust to HealthTrust, after exhausting all appeals, is probable at this time because of the chances that the Hearing Officer's Order in general and on this issue in particular may be overturned. In addition, because of the constitutional issues raised on appeal related to the retroactive application of law, the amount of any repayment by LGC Property-Liability Trust to HealthTrust resulting from an adverse final judgment cannot be reasonably estimated until the appeal process is concluded. As a result, the financial statements include this disclosure related to the $17.1 million repayment but do not include the accrual of any such income to HealthTrust consistent with U.S. generally accepted accounting principles.

16. Subsequent Event - Reorganization

The HealthTrust Board of Managers transferred of all the assets, liabilities and ongoing operations of HealthTrust to HealthTrust, Inc. effective September 1, 2013. It is anticipated that following the transaction, the HealthTrust, LLC will be dissolved.

On October 17, 2013, HealthTrust, Inc. the successor-in-interest to the Local Government Center HealthTrust, LLC's pooled risk management program, approved the return of undesignated net position at December 31, 2012 of $13,963,954 to its participating political subdivisions in order to remain in compliance with the BSR Order (see note 15). This has been reflected as a liability of HealthTrust as of December 31, 2012. An appeal of the BSR Order is currently pending in the New Hampshire Supreme Court.

17. Life Insurance and Long-Term Disability Programs

HealthTrust provides access to life insurance and long-term disability coverage to its risk pool groups provided by other insurance companies. HealthTrust pays the premiums to the insurance provider on behalf of the risk pool groups, which are then reimbursed to HealthTrust by the participating risk pool groups. During the years ended December 31, 2012 and 2011, HealthTrust paid $1,568,729 and $1,619,210, respectively, in premiums for life insurance and long-term disability coverage.

18. Restatement of 2011 Financial Results

During 2012, HealthTrust determined that certain data used to calculate its claims reserves at December 31, 2011 was incomplete and that the claims reserves reported in its 2011 financial statements was understated by $1,698,127. HealthTrust has recorded a prior period correction to restate its 2011 results. The effects of this correction on the 2011 financial statements are as follows:

	Previously reported	Correction	Restated
Claims reserves	$ 17,596,592	$ 1,698,127	$ 19,294,719
Unrestricted net position	$ 102,574,830	$ (1,698,127)	$ 100,876,703
Claims incurred expense	$ 362,138,419	$ 1,698,127	$ 363,836,546

REQUIRED SUPPLEMENTARY INFORMATION

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

Reconciliation of Claims Liabilities by Type of Contract (Unaudited)

Year Ended December 31, 2012

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

	Health	Dental	Short-Term Disability	Total
Claims reserves at beginning of year, restated	$ 18,097,406	$ 1,064,791	$ 132,522	$ 19,294,719
Incurred claims and claim adjustment expenses				
Provision for covered events of current year	351,098,341	22,263,322	1,034,496	374,396,159
Adjustments to provision for covered events of prior years	(1,883,464)	(307,830)	(11,056)	(2,202,350)
Total incurred claims and claim adjustment expenses	349,214,877	21,955,492	1,023,440	372,193,809
Payments of claims and claim adjustment expenses				
Payments attributable to covered events of current year	(330,679,889)	(21,198,111)	(873,861)	(352,751,861)
Payments attributable to covered events of prior years	(16,432,766)	(756,961)	(121,466)	(17,311,193)
Total payments	(347,112,655)	(21,955,072)	(995,327)	(370,063,054)
Total claims reserves at end of year	$ 20,199,628	$ 1,065,211	$ 160,635	$ 21,425,474

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

Reconciliation of Claims Liabilities by Type of Contract (Unaudited)

Year Ended December 31, 2011

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

	Health	Dental	Short-Term Disability	Total
Claims reserves at beginning of fiscal year	$ 17,790,810	$ 2,801,668	$ 132,789	$ 20,725,267
Incurred claims and claim adjustment expenses				
Provision for covered events of current year, restated	346,015,160	22,669,533	832,540	369,517,233
Adjustments to provision for covered events of prior years	(3,552,654)	(2,106,943)	(21,090)	(5,680,687)
Total incurred claims and claim adjustment expenses	342,462,506	20,562,590	811,450	363,836,546
Payments of claims and claim adjustment expenses				
Payments attributable to covered events of current year	(327,714,039)	(21,604,742)	(700,018)	(350,018,799)
Payments attributable to covered events of prior years	(14,441,871)	(694,725)	(111,699)	(15,248,295)
Total payments	(342,155,910)	(22,299,467)	(811,717)	(365,267,094)
Total claims reserves at end of year, restated	$ 18,097,406	$ 1,064,791	$ 132,522	$ 19,294,719

Ten-Year Claims Development Information (Unaudited)

Years Ended December 31, 2003 through 2011

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

The following table illustrates how HealthTrust's earned revenue (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by HealthTrust as of the end of each of the past ten years. The rows of the table are defined as follows:

1) The total of each fiscal year's gross earned contribution revenue and investment revenue, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue
2) Each fiscal year's other operating costs of HealthTrust including overhead and claims expense not allocable to individual claims
3) HealthTrust's gross incurred claims and allocated claim adjustment expenses, claims assumed by reinsurers, and net incurred claims and allocated adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called *policy year*)
4) This section of ten rows shows the cumulative net amounts paid as of the end of successive years for each policy year
5) The latest re-estimated amount of claims assumed by reinsurers as of the end of the current year for each accident year
6) This section of rows shows how each policy year's net incurred claims increased or decreased as of the end of each successive year. This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, and emergence of new claims not previously known
7) Comparison of the latest re-estimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought

As data for individual policy years mature, the correlation between original estimates and re-estimated amounts commonly is used to evaluate the accuracy of net incurred claims currently recognized in less matured policy years. The columns of the table show data for successive policy years.

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

Ten-Year Claims Development Information (Unaudited)

Years Ended December 31, 2003 through 2012

	Fiscal and Policy Year Ended (In Thousands)									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
1. Required contribution and investment revenue										
Earned	$ 223,599	$ 264,063	$ 293,244	$ 317,967	$ 331,766	$ 342,328	$ 372,330	$ 396,213	$ 412,622	$ 423,925
Ceded	4,229	4,818	2,527	1,098	897	508	434	239	-	290
Net earned	219,370	259,245	290,717	316,869	330,869	341,820	371,896	395,974	412,622	423,635
2. Unallocated expenses	20,219	23,860	24,882	25,652	27,073	27,604	28,075	28,242	29,987	30,702
3. Estimated claims and expenses, end of policy year Incurred	222,567	242,797	275,603	273,595	290,397	315,368	360,450	364,731	369,517	374,396
Ceded claims	2,313	2,210	3,428	467	189	-	-	-	-	-
Net incurred	220,254	240,587	272,175	273,128	290,208	315,368	360,450	364,731	369,517	374,396
4. Net paid (cumulative) as of										
End of policy year	196,925	215,715	247,913	273,128	267,732	292,616	336,880	345,127	350,019	352,752
One year later	216,544	230,927	265,572	268,972	281,938	307,641	352,585	360,537	367,738	-
Two years later	216,544	231,146	265,148	268,887	282,218	307,681	352,509	360,246	-	-
Three years later	216,543	231,072	265,069	268,834	282,206	307,620	352,434	-	-	-
Four years later	216,542	231,060	265,094	268,760	282,181	307,578	-	-	-	-
Five years later	216,542	231,056	265,092	268,760	282,181	-	-	-	-	-
Six years later	216,532	231,057	265,092	268,760	-	-	-	-	-	-
Seven years later	216,532	231,057	265,092	-	-	-	-	-	-	-
Eight years later	216,532	231,057	-	-	-	-	-	-	-	-
Nine years later	216,532	-	-	-	-	-	-	-	-	-
5. Reestimated ceded claims and expenses	2,313	2,210	3,428	467	189	-	-	-	-	-
6. Reestimated net incurred claims and expenses										
End of policy year	220,254	240,587	272,175	273,128	290,208	315,368	360,450	364,731	369,517	374,396
One year later	216,544	230,927	265,572	268,972	282,082	307,656	352,583	360,433	367,668	-
Two years later	216,544	231,146	265,148	268,887	282,218	307,681	352,443	360,381	-	-
Three years later	216,543	231,072	265,069	268,834	282,206	307,594	352,432	-	-	-
Four years later	216,542	231,060	265,094	268,760	282,174	307,588	-	-	-	-
Five years later	216,542	231,056	265,092	268,760	282,181	-	-	-	-	-
Six years later	216,532	231,057	265,092	268,760	-	-	-	-	-	-
Seven years later	216,532	231,057	265,092	-	-	-	-	-	-	-
Eight years later	216,532	231,057	-	-	-	-	-	-	-	-
Nine years later	216,532	-	-	-	-	-	-	-	-	-
7. Decrease in estimated net incurred claims and expenses from end of policy year	(3,722)	(9,530)	(7,083)	(4,368)	(8,027)	(7,780)	(8,018)	(4,350)	(1,849)	-

BerryDunn

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

To the Board of Managers of
Local Government Center HealthTrust, LLC
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

We have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial statement audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Local Government Center HealthTrust, LLC (a wholly-owned subsidiary of Local Government Center, Inc.) (HealthTrust) and its discretely presented component unit as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise HealthTrust's basic financial statements, and have issued our report thereon dated October 28, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered HealthTrust's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purposes of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of HealthTrust 's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of HealthTrust's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of HealthTrust's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as findings 2012-01 and 2012-02 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as findings 2012-03 and 2012-04 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether HealthTrust's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs as item 2012-05.

HealthTrust's Response to Findings

HealthTrust's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. HealthTrust's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and is not to provide an opinion on the effectiveness of HealthTrust's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering HealthTrust's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Berry Dunn McNeil & Parker, LLC

Manchester, New Hampshire
October 28, 2013

Schedule of Findings and Responses

December 31, 2012

Finding Number: 2012-01

Condition Found: During the audit we noted that information used by the actuary to develop the December 31, 2011 reserve was incomplete.

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting to prevent or detect and correct misstatements on a timely basis.

Cause and Effect: A reporting error from a third party administrator in 2011 caused the annual claims report utilized by the actuary hired by HeathTrust to be incomplete. The result of the error was an understatement of reserves estimated at approximately $1.7 million.

Recommendation: We recommend that management review and perform analytical procedures on the data provided to the actuary to reduce the risk of inaccurate reporting.

Views of a Responsible Official and Corrective Action Plan: In 2011, there was no formal reconciliation process between the claims triangle information received by Peter Riemer (the actuary) from Anthem and the information reconciled by HealthTrust to the actual claims payments. Based on his review of the information provided to him from Anthem, Peter Riemer believed the information received from Anthem seemed reasonable. In addition, Peter Riemer routinely asks Anthem about special circumstances that might affect the year-end reserve and the reliance made on the claims triangle. Inquiry is made regarding whether claims inventories and processing times are within normal ranges and whether there have been systems changes that might affect the use of the triangle data in estimating IBNR (Incurred But Not Reported) claims.

For the 2012 reserve analysis, a formal reconciliation process was instituted. Peter Riemer received information from Anthem as usual and also received the Anthem information provided to HealthTrust to reconcile actual claims payments to Anthem's claims system. Peter Riemer analyzed both files in detail to identify and resolve discrepancies. This process took place prior to the analysis of and release of the reserve adjustments for December 31, 2012. This formal reconciliation process will continue with future reserve reviews and should prevent the discrepancy identified from the 2011 process. The formal reconciliation process matches the grand totals from the Anthem file received by the actuary (a file that includes claims paid by pool as well as by product type) to the claims triangle file received by HealthTrust (a file that includes claims paid by month for Medicomp and other health claims). Annual documentation of this reconciliation will be provided to HealthTrust from the actuary.

Finding Number: 2012-02

Condition Found: During our review of the actuarial report we noted that actuarial assumptions used to develop the claims reserve were not reviewed or approved by management. While we understand that the reports are presented to the Board by the actuary, the assumptions were not specifically reviewed and approved.

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting to prevent or detect and correct misstatements on a timely basis.

Cause and Effect: The changes in assumptions can have a significant impact on the reserve estimate. There is no documented review of the reserves by management.

Recommendation: We recommend that a review and approval process be designed and implemented and appropriate documentation be retained.

Views of a Responsible Official and Corrective Action Plan: Management and Peter Riemer routinely discuss the assumptions and results of the reserve review. While this process has not had been formally documented, it has been the ongoing practice. In the future, management will provide a memo to the Board regarding the process used to review the assumptions and the results as well as management's opinion as to the appropriateness of the assumptions utilized by the actuary.

Finding Number: 2012-03

Condition Found: During the audit we noted that data used in the calculation of HealthTrust's actuarially determined incurred but not reported reserve included claims for self-funded groups.

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting to prevent or detect and correct misstatements on a timely basis.

Cause and Effect: Given the pass-through nature of these claims, the amounts should be excluded from the actuary's estimate and they were not. The result of including the additional self-funded claims resulted in an estimated overstatement of reserves at December 31, 2012 of approximately $187,000.

Recommendation: We recommend that management request these claims be excluded from the data provided to the actuary and a reconciliation of the claims data to the general ledger be performed.

Views of a Responsible Official and Corrective Action Plan: There is only one self-funded group in this program with about 300 employees. The contract provides individual stop loss at $100,000 per person, and aggregate stop loss at 110% of claims. Claims in excess of these parameters are not charged to the group. Under these terms, the actuary's opinion is that HealthTrust has significant insured exposure, especially given the small size of the group.

Finding Number: 2012-04

Condition Found: During our audit of procedures in the area of investments we noted that HealthTrust did not have a review procedure over the internal controls of one of the investment account trustees. This particular trustee did have a "Statement on Standards for Attestation Engagements No. 16" (SSAE 16) performed. SSAE 16 is the authoritative guidance that enables service organizations to disclose their control activities and processes to their customers and their customers' auditors in a uniform reporting format. A SSAE 16 examination signifies that a service organization has had its control objectives and control activities examined by an independent accounting and auditing firm. A formal report including the auditor's opinion is issued to the service organization at the conclusion of a SSAE 16 examination. This provides valuable information regarding the service organization's controls and the effectiveness of those controls.

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting to prevent or detect and correct misstatements on a timely basis.

Cause and Effect: Due to lack of specific internal control over completeness of SSAE 16 report review, HealthTrust did not perform its due diligence with respect to requesting these reports from the service provider. As a result, HealthTrust was not able to monitor the overall risk related the internal controls at the trustee.

Recommendation:	As part of the finance committee's fiduciary responsibility, we recommend the committee obtain an understanding of the various trustees' controls over the cycle of initiating, recording, processing, summarizing and reporting the Organization's investment transactions. Documentation of the committee's consideration of the trustee's SSAE 16 report and other control procedures should be evidenced by documentation in meeting minutes or other similar means. If a trustee does not have a SSAE 16 report available, we recommend management or the investment and finance committee obtain an understanding of these controls through inquiry of the investment trustees or custodians. We also recommend such discussions and understandings be documented.
Views of a Responsible Official and Corrective Action Plan:	Although this trustee does not have custody of any funds, it would be prudent for HealthTrust to review their SSAE 16 as they do initial trades in accordance with HealthTrust's investment policy
Finding Number:	2012-05
Condition Found:	During 2012 the Secretary of State's Bureau of Securities Regulation (BSR) brought an administrative petition against HealthTrust alleging that the corporate structure of HealthTrust violates RSA 5-B:5 and participation in the risk pools allegedly constitutes the sale of unregistered securities by unlicensed broker-dealers, issuer-dealers and agents, and as a result risk pool participation was allegedly sold without required disclosures in violation of the New Hampshire Securities Act.
Criteria:	Management is responsible for maintaining compliance with applicable laws and regulations.
Context:	This condition was found during our discussions with management and legal counsel.
Cause and Effect:	The result of the noncompliance was the BSR's administrative petition and requirement that HealthTrust complies with all parts of the petition.
Recommendation:	BerryDunn recommends that management comply with all parts of the BSR's administrative petition in order to be in compliance with laws and regulations.

Views of a Responsible Official and Corrective Action Plan:	Management has worked toward complying with the BSR's administrative petition. HealthTrust has transferred the assets, liabilities and ongoing operations of HealthTrust to HealthTrust, Inc. effective September 1, 2013.