

LOCAL GOVERNMENT CENTER REAL ESTATE, INC.
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

FINANCIAL STATEMENTS

December 31, 2009 and 2008

With Independent Auditors' Report

LOCAL GOVERNMENT CENTER REAL ESTATE, INC.
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

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INDEPENDENT AUDITORS' REPORT

The Board of Directors of Local Government Center, Inc., as Sole Shareholder of
Local Government Center Real Estate, Inc.
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

We have audited the statements of financial position of Local Government Center Real Estate, Inc. (a wholly-owned subsidiary of Local Government Center, Inc.) (LGCRE) as of December 31, 2009 and 2008 and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of LGCRE's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LGCRE as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2010 on our consideration of LGCRE's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying required supplementary information, management's discussion and analysis on pages 3 through 5, is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Berry, Dunn, McNeil & Parker

Manchester, New Hampshire
June 18, 2010

LOCAL GOVERNMENT CENTER REAL ESTATE, INC.
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

Management's Discussion and Analysis

December 31, 2009

Overview:

In 1988, the Local Government Center, Inc. (formerly New Hampshire Municipal Association), Local Government Center HealthTrust (formerly HealthTrust) and Local Government Center Property-Liability Trust (formerly NHMA Property-Liability Trust) formed the Local Government Center Real Estate, Inc. (LGCRE) (formerly Local Government Center, Inc.). LGCRE was established to acquire and hold title to real estate to house the incorporators. At its inception, LGCRE's stockholders were the three incorporators. As of July 1, 2003, the three stockholders distributed their shares in LGCRE to Local Government Center, Inc. Local Government Center, Inc. is the sole stockholder in LGCRE.

LGCRE primarily leases real estate to Local Government Center, Inc., Local Government Center HealthTrust, LLC, Local Government Center Property-Liability Trust, LLC and New Hampshire Municipal Association, LLC. There are no lease terms associated with the leases. The rent payments are determined to cover the operating and maintenance expenses of LGCRE. During 2004, LGCRE entered into a 10-year lease agreement with the New Hampshire Municipal Bond Bank. LGCRE also provides free office space to another third-party tenant under an agreement for an initial ten-year term.

Discussion of the Basic Financial Statements:

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

Statement of Financial Position: This statement provides information about LGCRE's assets, liabilities and net assets as of December 31, 2009 and 2008. The majority of LGCRE's assets are in the property and equipment category. This reflects the amount invested in the building and grounds at 25 Triangle Park Drive in Concord, NH. The liabilities reflect amounts due to parent and vendors at December 31, 2009 and that were paid in 2010. Net Assets reflect the result of ongoing operations and stockholder's equity in LGCRE.

Statement of Revenues, Expenses, and Changes in Net Assets: The results of LGCRE's operations are shown on this statement. This statement provides information about the rent, other income and expenses for calendar year 2009 and 2008. Additionally, this statement sets forth LGCRE's change in Net Assets for the year (whether LGCRE had a profit or loss).

Statement of Cash Flows: This statement reviews how LGCRE's cash balance changed during calendar years 2009 and 2008. It is divided into three different areas explaining where LGCRE provided or used cash during the year. These areas relate to LGCRE's operations, investing and financing activities (sale and acquisition of capital assets). It provides the "reasons" for the increase or decrease in LGCRE's cash position.

LOCAL GOVERNMENT CENTER REAL ESTATE, INC.
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

Management's Discussion and Analysis

December 31, 2009

Operating Results:

LGCRE's assets stand at \$8,833,731, a decrease of \$326,667 during 2009. This decrease is primarily due to depreciation expense during the year. The current assets decreased due to the fact that LGCRE paid approximately \$2.4 million for the construction of the building expansion during the year ended December 31, 2009.

Current liabilities decreased \$85,086 in 2009 to stand at \$58,492. The decrease is primarily due to the payment of construction related liabilities of \$92,670 included in current liabilities as of December 31, 2008. There are no long-term liabilities. Net assets are broken into three categories with unrestricted net assets of \$264,232 and investment in capital assets of \$8,511,007. Due to the completion of the building addition, the board designated net assets for capital asset additions is zero as of December 31, 2009.

LGCRE net assets decreased by \$241,581 during 2009. There was a loss from operations of \$243,156, primarily in the area of depreciation and amortization (\$208,864). Other income in the amount of \$1,575 came from interest income.

LGCRE's revenue is primarily from office space leases to its affiliated companies Local Government Center, Inc., Local Government Center HealthTrust, LLC, Local Government Center Property-Liability Trust, LLC, and New Hampshire Municipal Association, LLC. The New Hampshire Municipal Bond Bank also leases space from LGCRE under a 10-year lease agreement. LGCRE provides free office space to the New Hampshire School Boards Association. In addition to this income, employees of the lessees pay a fee to belong to the fitness facility.

Total expenses include an allowance for depreciation and amortization expense, salaries, repairs, maintenance, utilities, supplies and other operating expenses. Expenses for 2009 total \$565,726. Major operating expenses as a percentage of total expenses are as follows:

Depreciation and amortization	36.9 %
Salaries and related expenses	18.6 %
Utilities	15.8 %
Taxes and licenses	11.2 %
Repairs and maintenance	9.6 %
All other expenses	7.9 %

LOCAL GOVERNMENT CENTER REAL ESTATE, INC.
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Management's Discussion and Analysis

December 31, 2009

Although exempt from the payment of property taxes, LGCRE pays the City of Concord a payment in lieu of taxes. This payment is consistent with the organization's policy that tax exempt properties should remit the city/town portion of property taxes to its host community for assistance in provision of public safety, public works and other community-wide commitments the tax exempt property owner uses.

Major Accounting Policies:

Financial statements are prepared under the accrual method of accounting. Thus, expenses are recognized in the period in which they are incurred and revenue in the period in which it is earned. At December 31, 2009, calculations for prepaid expenses, accrued expenses, and amounts due to the parent were recognized to ensure expenses and revenues were recognized in the appropriate period(s).

Outlook:

LGCRE continues to be popular with outside groups as premier meeting space and state-of-the-art audio-visual capabilities. The meeting facilities are used frequently free of charge by various municipal and school groups on a first-come, first-served basis. There are times when conflicts occur because of their popularity. This exposes all the LGC programs to multiple audiences and enhances the ability of municipal and school groups to offer outstanding training to their constituencies.

LOCAL GOVERNMENT CENTER REAL ESTATE, INC.
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

Statements of Financial Position

December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 322,450	\$ 2,709,099
Prepaid expenses	<u>274</u>	<u>257</u>
Total current assets	322,724	2,709,356
Property and equipment, net	<u>8,511,007</u>	<u>6,451,042</u>
Total assets	<u>\$ 8,833,731</u>	<u>\$ 9,160,398</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable, trade	\$ 15,710	\$ 89,666
Accrued expenses	4,166	5,881
Retainage payable	-	22,504
Due to Parent	<u>38,616</u>	<u>25,527</u>
Total current liabilities and total liabilities	<u>58,492</u>	<u>143,578</u>
Commitments and contingencies (Notes 5 and 7)		
Net assets (deficit)		
Unrestricted net assets (deficit)	264,232	(111,309)
Board designated for capital asset additions	-	2,769,757
Invested in capital assets	<u>8,511,007</u>	<u>6,358,372</u>
Total net assets	<u>8,775,239</u>	<u>9,016,820</u>
Total liabilities and net assets	<u>\$ 8,833,731</u>	<u>\$ 9,160,398</u>

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

LOCAL GOVERNMENT CENTER REAL ESTATE, INC.
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

Statements of Revenues, Expenses, and Changes in Net Assets

Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating revenues		
Rent	\$ 316,480	\$ 314,405
Other revenue	<u>6,090</u>	<u>5,313</u>
Total operating revenues	<u>322,570</u>	<u>319,718</u>
Operating expenses		
Depreciation and amortization	208,864	140,492
Salaries, payroll taxes and benefits	105,490	102,090
Utilities	89,430	80,787
Taxes and licenses	63,452	47,950
Repairs and maintenance	54,560	63,086
Insurance	19,285	18,322
Supplies	18,980	13,416
Professional fees	4,313	9,846
Staff and board expenses	1,258	2,343
Miscellaneous	<u>94</u>	<u>417</u>
Total operating expenses	<u>565,726</u>	<u>478,749</u>
Loss from operations	(243,156)	(159,031)
Nonoperating income		
Interest income	<u>1,575</u>	<u>1,644</u>
Decrease in net assets before contributions	(241,581)	(157,387)
Contribution from Parent	<u>-</u>	<u>3,520,900</u>
(Decrease) increase in net assets	(241,581)	3,363,513
Net assets, beginning of year	<u>9,016,820</u>	<u>5,653,307</u>
Net assets, end of year	<u>\$ 8,775,239</u>	<u>\$ 9,016,820</u>

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

LOCAL GOVERNMENT CENTER REAL ESTATE, INC.
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

Statements of Cash Flows

Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities		
Rental income collected	\$ 316,480	\$ 314,405
Other revenue received	6,090	5,313
Salaries, payroll taxes, and benefits paid	(101,990)	(103,793)
Other expenses paid	<u>(247,305)</u>	<u>(232,642)</u>
Net cash used by operating activities	<u>(26,725)</u>	<u>(16,717)</u>
Cash flows from investing activities		
Received from interest	<u>1,575</u>	<u>1,644</u>
Cash flows from capital and related financing activities		
Contributions to net assets from Parent	-	3,520,900
Payment for construction of building and acquisition of equipment	<u>(2,361,499)</u>	<u>(891,635)</u>
Net cash (used) provided by capital and related financing activities	<u>(2,361,499)</u>	<u>2,629,265</u>
Net (decrease) increase in cash and cash equivalents	(2,386,649)	2,614,192
Cash and cash equivalents, beginning of year	<u>2,709,099</u>	<u>94,907</u>
Cash and cash equivalents, end of year	<u>\$ 322,450</u>	<u>\$ 2,709,099</u>

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

LOCAL GOVERNMENT CENTER REAL ESTATE, INC.
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

Statements of Cash Flows (Concluded)

Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Reconciliation of loss from operations to net cash used by operating activities		
Loss from operations	\$ (243,156)	\$ (159,031)
Adjustments to reconcile loss from operations to net cash used by operating activities		
Depreciation and amortization	208,864	140,492
(Increase) decrease in prepaid expenses	(17)	4,410
Increase (decrease) in		
Accounts payable, trade	(3,790)	(885)
Accrued expenses	(1,715)	444
Due to Parent	<u>13,089</u>	<u>(2,147)</u>
Net cash used by operating activities	<u>\$ (26,725)</u>	<u>\$ (16,717)</u>
Supplemental disclosure of noncash capital financing activities		
Cost of construction of building and acquisition of equipment	\$ 2,268,829	\$ 984,305
Less: Accounts payable, trade and retainage payable	-	(92,670)
Plus: Payment of short-term trade accounts used to finance construction of building	<u>92,670</u>	<u>-</u>
Payment for construction of building and acquisition of equipment	<u>\$ 2,361,499</u>	<u>\$ 891,635</u>

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

LOCAL GOVERNMENT CENTER REAL ESTATE, INC.
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

Notes to Financial Statements

December 31, 2009 and 2008

Nature of Operations

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. LGCRE became a wholly-owned subsidiary of Local Government Center, Inc. (Parent) on July 1, 2003 when Local Government Center HealthTrust, LLC (LGC HealthTrust) and Local Government Center Property-Liability Trust, LLC (LGC Property-Liability Trust), former shareholders of LGCRE and wholly-owned subsidiaries of Parent, distributed their interests in LGCRE to the Parent. LGCRE leases the real estate to the Parent, affiliated companies wholly-owned by the Parent, and third parties.

1. Summary of Significant Accounting Policies

Basis of Accounting

LGCRE is, primarily, an internal service fund providing office space to related entities on a cost reimbursement basis. The financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting.

Accounting Standards

Pursuant to Governmental Accounting Standards Board (GASB) Statements No. 20, "Accounting and Financial Reporting for Proprietary Funds," and No. 29, "Other Governmental Entities That Use Proprietary Fund Accounting," LGCRE has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board, including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Use of Estimates

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

Cash and Cash Equivalents

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

LOCAL GOVERNMENT CENTER REAL ESTATE, INC.
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

Notes to Financial Statements

December 31, 2009 and 2008

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 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.

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

	<u>Estimated Useful Life (in Years)</u>
Land improvements	15
Buildings and building improvements	31 - 40
Equipment	3 - 5
Furniture and fixtures	3 - 5

Operating Revenues and Expenses

LGCRE's statement of revenues, expenses, and changes in net assets 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.

Income Taxes

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

LOCAL GOVERNMENT CENTER REAL ESTATE, INC.
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

Notes to Financial Statements

December 31, 2009 and 2008

2. Cash and Cash Equivalents

LGCRE maintains its cash in bank deposits and cash management accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 as of December 31, 2009 and 2008. As of December 31, 2009 and 2008, the carrying amount of cash held, in total, in excess of the FDIC limit was \$39,519 and \$2,441,008, respectively. The balance in excess of the FDIC limit is collateralized with securities held in joint custody with the bank.

3. Related Party Transactions

Of the 3,000 shares of common stock authorized, 2,022 shares are issued and outstanding, are owned solely by the Parent, and have no par value.

The Parent provides substantially all the administrative and operational services to LGCRE. Total administrative expenses charged by the Parent to LGCRE were \$129,201 and \$111,786 during 2009 and 2008, respectively. Amounts due to the Parent represent expenses paid by the Parent on behalf of LGCRE. These amounts are noninterest-bearing and are expected to be repaid during the subsequent year.

LGCRE leases building space to its Parent and affiliated companies that are wholly-owned by the Parent, under operating leases with an indefinite lease term. Rental income from the Parent and affiliates was as follows:

	<u>Year Ended December 31,</u>	
	<u>2009</u>	<u>2008</u>
Parent	\$ 39,520	\$ 39,498
New Hampshire Municipal Association, LLC	4,300	4,300
LGC HealthTrust	194,699	194,699
LGC Property-Liability Trust	<u>64,471</u>	<u>64,493</u>
Total rental income from related parties	\$ <u>302,990</u>	\$ <u>302,990</u>

LOCAL GOVERNMENT CENTER REAL ESTATE, INC.
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

Notes to Financial Statements

December 31, 2009 and 2008

4. Property and Equipment

Property and equipment consists of the following:

	Year Ended December 31, 2009		
	<u>Beginning</u>		<u>Ending</u>
	<u>Balance</u>	<u>Additions</u>	<u>Balance</u>
Land and land improvements	\$ 2,269,747	\$ 3,242	\$ 2,272,989
Buildings and building improvements	5,242,800	2,073,814	7,316,614
Equipment	403,706	88,365	492,071
Furniture and fixtures	<u>265,448</u>	<u>103,408</u>	<u>368,856</u>
	8,181,701	2,268,829	10,450,530
Less accumulated depreciation	<u>1,730,659</u>	<u>208,864</u>	<u>1,939,523</u>
	<u>\$ 6,451,042</u>	<u>\$ 2,059,965</u>	<u>\$ 8,511,007</u>

	Year Ended December 31, 2008		
	<u>Beginning</u>		<u>Ending</u>
	<u>Balance</u>	<u>Additions</u>	<u>Balance</u>
Land and land improvements	\$ 2,215,628	\$ 54,119	\$ 2,269,747
Buildings and building improvements	4,321,682	921,118	5,242,800
Equipment	394,638	9,068	403,706
Furniture and fixtures	<u>265,448</u>	<u>-</u>	<u>265,448</u>
	7,197,396	984,305	8,181,701
Less accumulated depreciation	<u>1,590,167</u>	<u>140,492</u>	<u>1,730,659</u>
	<u>\$ 5,607,229</u>	<u>\$ 843,813</u>	<u>\$ 6,451,042</u>

LOCAL GOVERNMENT CENTER REAL ESTATE, INC.
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

Notes to Financial Statements

December 31, 2009 and 2008

5. Description of Rental Agreements

LGCRE entered into a rent agreement with a third-party tenant (tenant A) during 2004. The initial term of the rent agreement is for a period of ten years, expiring on December 31, 2014. As of April 2005, LGCRE began providing office space to a third-party tenant (tenant B) under an agreement with its Parent at no charge for an initial term of ten years. The estimated fair value of the office space leased is approximately \$9,775 per year.

The following is a schedule of future minimum lease payments to be received under the rent agreement with tenant A:

2010	\$ 12,452
2011	12,452
2012	12,452
2013	12,452
2014	<u>12,452</u>
	\$ <u>62,260</u>

Rent income under the lease with tenant A totaled \$13,490 for 2009 and \$11,415 for 2008.

6. Risk Management

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

7. Contingency

LGCRE assesses potential liabilities in connection with lawsuits and threatened lawsuits under Financial Accounting Standards Board *Accounting Standards Codification* Topic 450, *Contingencies*. LGCRE accrues an estimated loss for these 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, 2009, LGCRE has not accrued any liability for any lawsuits or threatened lawsuits as the conditions for accrual have not been met. LGCRE expenses legal costs as they are incurred.

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

Board of Directors of Local Government Center, Inc., as Sole Shareholder of
Local Government Center Real Estate, Inc.
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

We have audited the financial statements of Local Government Center Real Estate, Inc. (a wholly-owned subsidiary of Local Government Center, Inc.) (LGCRE) as of and for the year ended December 31, 2009 and have issued our report thereon dated June 18, 2010. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered LGCRE's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of LGCRE's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of LGCRE's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether LGCRE'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of LGCRE in a separate letter dated June 18, 2010.

This report is intended solely for the information and use of the Board of Directors of Local Government Center, Inc. as sole shareholder of LGCRE and management, and is not intended to be and should not be used by anyone other than these specified parties.



Manchester, New Hampshire
June 18, 2010