JOHNSON LAMBERT & CO. LLP
CPAs AND CONSULTANTS

VLCT Property and Casualty Intermunicipal Fund, Inc.

Audited Financial Statements
with Supplementary Information

Years ended December 31, 2010 and 2009
with Report of Independent Auditors

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with Supplementary Information

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Contents

Report of Independent Auditors

The Board of Directors
VLCT Property and Casualty Intermunicipal Fund, Inc.

We have audited the accompanying statements of net assets of VLCT Property and Casualty Intermunicipal Fund, Inc. ("the Fund") as of December 31, 2010 and 2009, and the related statements of contributions, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

The accounting principles generally accepted in the United States require that the Management's Discussion and Analysis on pages 3 - 18 and the accompanying financial information listed on pages 39 - 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board which has determined it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, 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.

Our audits were conducted for the purpose of forming an opinion on the Fund's basic audited financial statements as a whole. The supplementary information on pages 42 - 44 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on it.

Johnson Lambert & Co. LLP

Burlington, Vermont
March 16, 2011

Vermont firm registration: 092-0000267

VLCT Property and Casualty Intermunicipal Fund, Inc.

Management's Discussion and Analysis

December 31, 2010 and 2009

Management of the VLCT Property and Casualty Intermunicipal Fund, Inc., (the “Fund”) presents the following overview and analysis of its financial operations for the fiscal year ended December 31, 2010, to be reviewed and considered in conjunction with the more detailed statements, schedules, exhibits and notes in the ensuing pages of this report.

Highlights

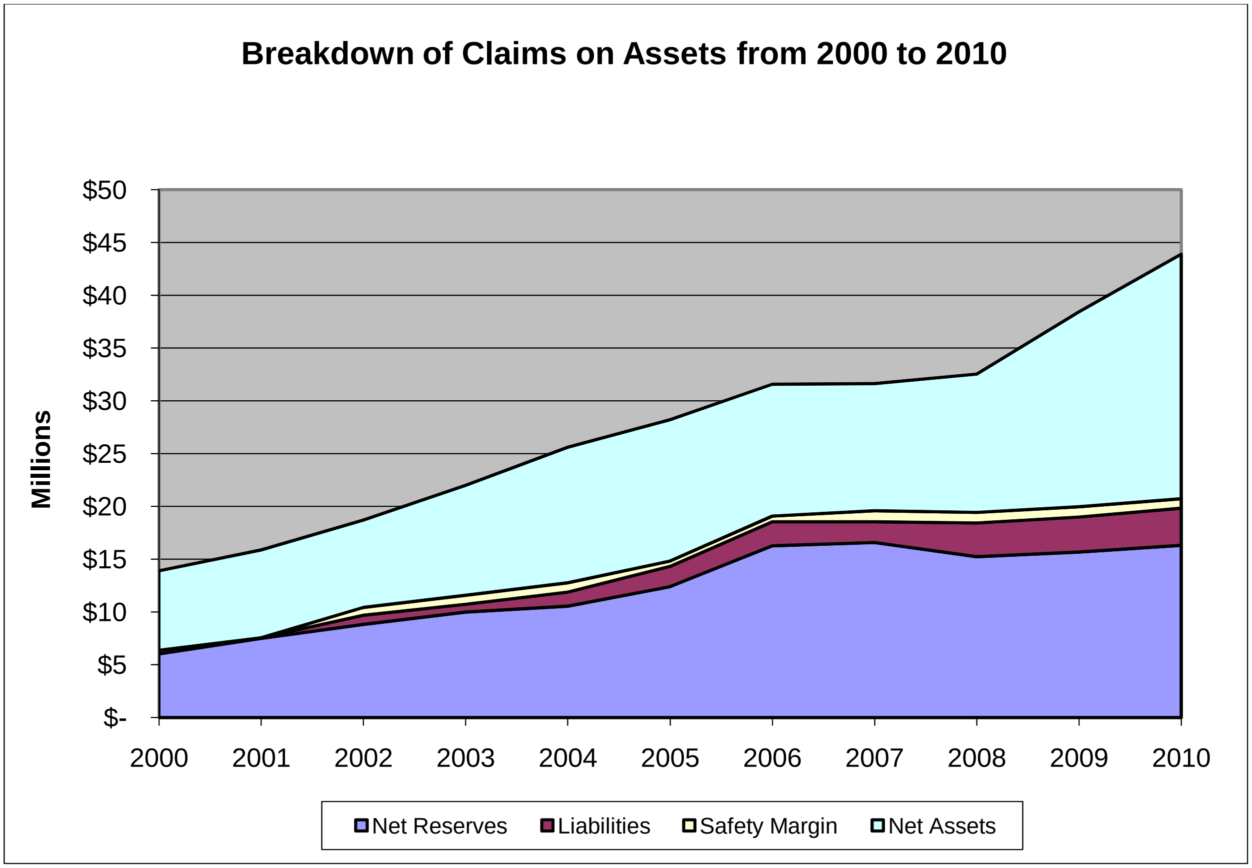
- Assets exceeded liabilities at the end of 2010 by $24,063,888. Of this amount, $22,161,164 is undesignated, and $1,902,724 is board designated. The board designated net assets represent $800,000 of premium credits to be applied to 2011, $200,000 to be allocated to fund the member safety grant program and $902,724 for the safety margin by recommendation of our actuary in order to maintain a 90% confidence level in the accuracy of the non-case reserves (IBNR-incurred but not reported). In 2009, assets exceeded liabilities by $19,448,301, of which $17,716,612 was undesignated as of the end of the year. In 2008, assets exceeded liabilities by $14,103,874, of which $12,604,843 was undesignated as of the end of the year. Board designated funds for 2009 and 2008 were $1,731,689 and $1,499,031, respectively. Board designated funds consisted of $750,000 and $499,939 of premium credits and $981,689 and $999,092 of safety margin allocation for 2009 and 2008, respectively.

- Net assets in 2010 increased by $4,615,587 (23.7%) from 2009. The ratio of net assets to total assets has increased to 54.8% in 2010 from 50.6% in 2009, with a significant increase in assets ($5,456,488 increase) and small increases in liabilities and reserves. By comparison, 2009 reflected an increase in assets ($5,901,920), and a small increase in liabilities. As of December 31, 2010, the change in net ultimate incurred losses (not including safety margin) for prior years (1998 – 2009) is an increase of $794,156. This reflects less than 1% of the total ultimate incurred ($86,224,072 ultimate incurred estimated by the actuary). As of December 31, 2009, the change in net ultimate incurred losses (not including safety margin) for prior years (1998 – 2008) is an increase of $657,012. This reflects less than 1% of the total ultimate incurred ($77,119,439 ultimate incurred estimated by the actuary).

- Net case and non case (IBNR) reserves as of December 31, 2010, increased by 3.2% or $472,664 over reserves as of December 31, 2009, from $14,911,011 to $15,383,674. By comparison, net case and non case (IBNR) reserves increased by 2.9% over the prior year at the end of 2009, from $14,482,936 to $14,911,010. The claims expense reserve and the workers' compensation state assessment reserve increased 22% over last year, from $767,763 in 2009 to $937,030 in 2010 and increased 1.6%, from $755,574 to $767,763 from 2008 to 2009.

Highlights (Continued)

The graph shown below measures the trend of the breakdown for each type of claim (liabilities, reserves, safety margin and undesignated net assets) on the Fund's total assets. The safety margin was implemented in 2003; prior to that, it was included in liabilities. The safety margin has been discounted for future investment earnings at a rate of 3.5% for 2008-2010.



Overview of the Fund's Financial Statements

The Fund's fiscal year is January 1 through December 31 and there are a total of twenty-five funds, twenty-four of them constituting fund years to account for claims in their respective policy years. The remaining one, the surplus reserve fund, was established to provide additional funds to cover unanticipated deficits in the individual fund years, as well as provide a replacement "cushion" when aggregate insurance was discontinued. The surplus reserve fund enables the Fund to take on more risk with higher self insured retentions and long term investment strategies, as well as absorb any unusual growth in membership and/or claims.

Overview of the Fund's Financial Statements (Continued)

The Fund operations are divided into seven cost centers in order to better internally manage the budgets for administrative costs. These cost centers are:

- Reinsurance
- Administration
- Underwriting
- Member Relations
- Loss Control (Safety and Health Promotion)
- Wellness
- Claims

The first cost center is shown as reinsurance expenses in the financial statements presented in this report. The next six cost centers, administration through claims, are combined and included under the operating or administrative costs in the financial statements.

The annual financial report consists of four parts:

- Management's Discussion and Analysis
- Financial Statements and Disclosures
- Required Supplementary Information
- Supplementary Information

Management's discussion and analysis provides a narrative overview of the statements and comments on significant developments during the reporting period. The intention is to present a financial summary of operations for the past fiscal year and discuss the outlook for the ensuing year.

Required Financial Statements include:

- Statement of Net Assets
- Statement of Contributions, Expenses and Changes in Net Assets
- Statement of Cash Flows
- Notes to the Financial Statements

These statements present the Fund's status at December 31, 2010 and 2009 and financial developments during 2010 for all cost centers combined.

Overview of the Fund's Financial Statements (Continued)

The statement of net assets presents the economic position of the Fund, showing the assets owned by PACIF and how those assets are financed: by debt or short-term obligations, actuarially determined reserves, and by net assets (the Fund's equity), more commonly known as the "fund balance" or "surplus" as it is referred to in the insurance industry.

The statement of contributions, expenses and changes in net assets shows the operating transactions for the year, revenue and expenses. This statement is classified by operating and non-operating revenues and expenses. As required by GASB, investment income is considered a non-operating revenue. Despite this, investment income is integral to insurance company operations. The result of operations is the change in net assets. This figure added to last fiscal year's net assets is the new net assets total shown in both the statement of net assets as well as the statement of contributions, expenses and changes in net assets.

The statement of cash flows outlines the cash flow resulting from operations, investment, and financing activities of the Fund.

Notes to the financial statements provide explanations of the accounting principles followed and of key items in the statements. They include tables showing detailed analysis of certain accounts.

The required supplementary schedules include the ten year claims development schedule and the reconciliation of claim liabilities by type of contract. The supplementary schedules include the combining statement of net assets, combining statement of contributions, expenses and changes in net assets and the schedule of general and administrative expenses. The supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Please note that in the following analysis, when ratios are discussed, insurance terms are used along with the standard accounting terms. In the insurance industry "surplus" is used for the accounting term "net assets" or "fund balance", and "premium" is used for "contributions". Accounting and insurance terms may be used interchangeably in the following sections when discussing ratios.

Results and Analysis

The following table summarizes the statement of net assets for 2010 including a comparison to 2009 and 2008, showing the percentage change. Unrestricted equity is made up of designated and undesignated balances, as previously described.

Results and Analysis (Continued)

Financial Analysis

	December 31, 2010	December 31, 2009	Percentage Change	December 31, 2008	Percentage Change
Cash and Investments	$ 41,115,146	$ 35,491,607	15.84 %	$ 29,068,322	22.10 %
Other assets	2,784,694	2,951,745	(5.66)%	3,473,110	(15.01)%
Total assets	43,899,840	38,443,352	14.19 %	32,541,432	18.14 %
Current liabilities	3,515,248	3,316,278	6.00 %	3,199,048	3.66 %
Noncurrent liabilities	16,320,704	15,678,773	4.09 %	15,238,510	2.89 %
Total liabilities	19,835,952	18,995,051	4.43 %	18,437,558	3.02 %
Net assets					
Board designated	1,902,724	1,731,689	9.88 %	1,499,031	15.52 %
Unrestricted	22,161,164	17,716,612	25.09 %	12,604,843	40.55 %
Total net assets	$ 24,063,888	$ 19,448,301	23.73 %	$ 14,103,874	37.89 %

As of December 31, 2010, total assets increased by 14.2% from $38.4 million to $43.9 million, compared to an increase of 18.1% from 2008 to 2009.

As of December 31, 2010, total current liabilities increased by 6% from $3.3 million to $3.5 million. Total current liabilities in 2009 increased by 3.7% from 2008. The increase in 2010 partially related to an increase in contributions paid in advance for the 2011 fund year. These receipts will not be recognized as revenue until 2011 and are therefore a liability to the Fund. The remaining increase can be attributed to the increase in claims expense and workers' compensation state assessment reserve from 2009 to 2010.

Results and Analysis (Continued)

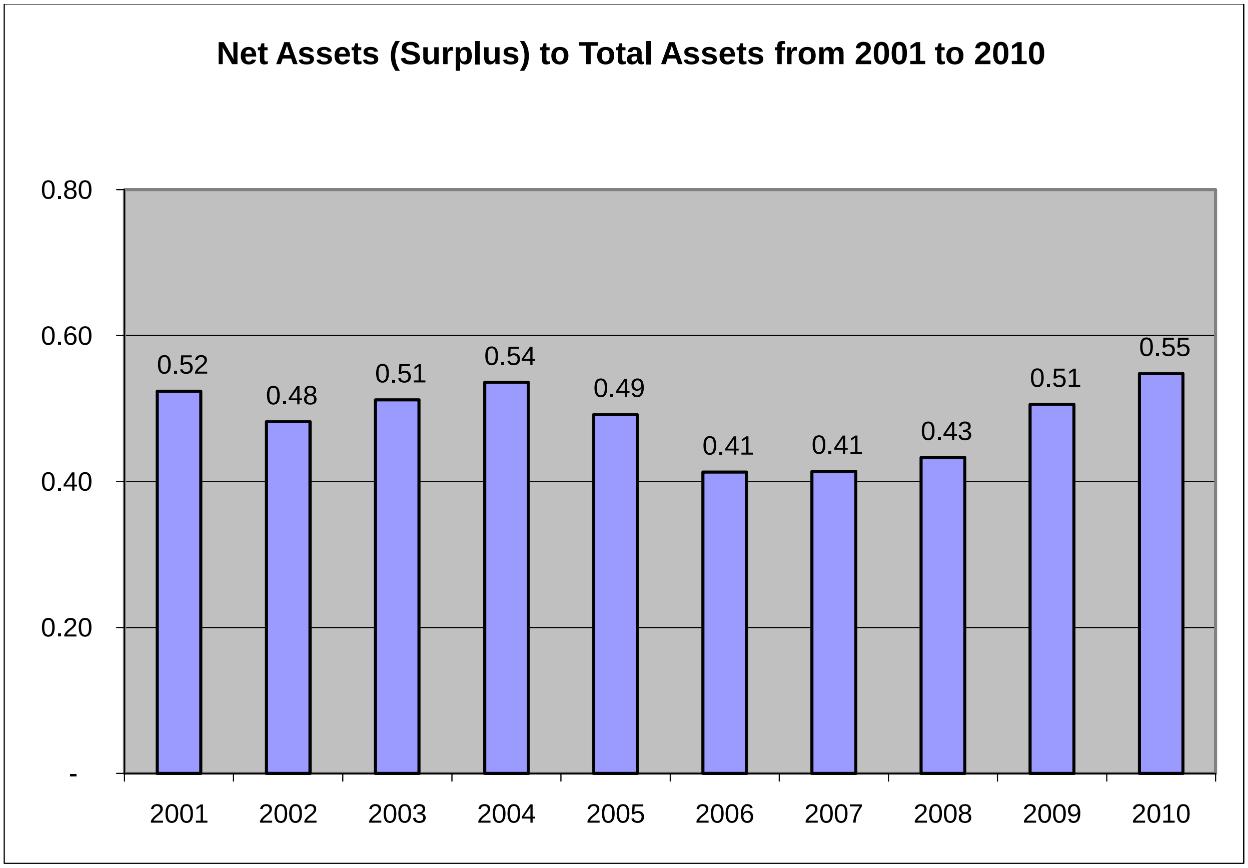
Reserves increased by 3.2 % from 2009 to 2010, compared to a 2.9% increase from 2008 to 2009. Total case and non-case (IBNR) reserves are broken out by fund year in the following table:

Fund Year	12/31/2010	12/31/2009	12/31/2008
1994	$ 30,796	$ 30,869	$ 23,768
1995	21,173	19,596	-
1998	10,635	474	-
1999	54,746	75,558	49,209
2000	-	-	-
2001	152,742	64,019	269,730
2002	232,984	115,566	149,437
2003	263,331	314,352	406,844
2004	283,942	448,565	806,302
2005	752,668	1,695,087	1,390,076
2006	1,331,680	1,869,894	2,864,246
2007	1,533,712	1,472,159	3,094,575
2008	2,153,158	3,321,120	5,428,749
2009	3,697,373	5,483,751	-
2010	4,864,734	-	-
Totals	$ 15,383,674	$ 14,911,010	$ 14,482,936

Total net assets at year end were $24,063,888 up from $19,448,301 at the same time last year. Net assets increased from $14,103,874 to $19,448,3011 from 2008 to 2009. As explained in the highlights section above, the 2009 to 2010 increase of $4,615,587 is essentially the net result of investment earnings and premium revenues over the increase in loss development for 2010. Net assets at December 31, 2009 were $19,448,301, up from $14,103,874 at December 31, 2008. This increase of $5,344,427 was the net result of improved investment earnings and premium revenues over the increase in loss development.

The net assets to total assets ratio measures the Fund's surplus against the value of its total assets. The higher the ratio, the better the financial position, providing more of a cushion against unexpected losses, poor investment returns, or operating deficits. Over half of all the Fund's assets are available to cover any of these potential problems. Related ratios examining pool solvency are presented later in this report along with the analysis of the statement of contributions, expenses and changes in net assets. Net assets or surplus as a ratio to total assets has fluctuated from 0.54 in 2004 to 0.41 in 2006 and 2007. Improved investment earnings played a large part in the 2009 increase from 0.43 in 2008 to 0.51 in 2009. In 2010, this ratio increased to 0.55.

Results and Analysis (Continued)



Results and Analysis (Continued)

The following table summarizes the Statement of Contributions, Expenses and Changes in Net Assets as of 2010 with a comparison to 2009 and 2008, showing the percentage changes:

Summary of Contributions, Expenses, and Changes in Equity	2010	2009	Percentage Change	2008	Percentage Change
Fund contributions	$ 18,077,511	$ 17,320,161	4.37 %	$ 16,335,250	6.03 %
Other revenues	41,866	23,220	80.30 %	13,118	77.01 %
Total operating revenues	18,119,377	17,343,381	4.47	16,348,368	6.1 %
Operating expenses:					
Provision for losses and loss adjustment expenses	9,157,602	9,117,651	0.44 %	7,004,541	30.2 %
Broker fees	146,889	166,889	(11.98)%	152,519	9.4 %
Reinsurance premiums	2,837,441	2,569,456	10.43 %	2,736,550	(6.1)%
Other operating expenses	3,435,890	3,502,159	(1.89)%	3,289,484	6.5 %
Total operating expenses	15,577,822	15,356,155	1.44 %	13,183,094	16.5 %
Operating income	2,541,555	1,987,226	27.89 %	3,165,274	(37.2)%
Non-operating revenues:					
Investment income	1,413,383	1,358,352	4.05 %	1,138,348	19.3 %
Net (decrease) increase in fair value of investments	1,521,391	2,563,492	(40.65)%	(2,496,638)	(202.7)%
Investment fees	(110,742)	(64,704)	71.15 %	(66,984)	(3.40)%
Total non-operating revenues	2,824,032	3,857,140	(26.78)%	(1,425,274)	(370.6)%
Member distribution-contribution credit	750,000	499,939	50.02 %	723,294	(30.9)%
Non-operating income	2,074,032	3,357,201	(38.22)%	(2,148,568)	(256.3)%
Change in net assets	4,615,587	5,344,427	(13.64)%	1,016,706	425.7 %
Net assets at beginning of year	19,448,301	14,103,874	37.89 %	13,087,168	7.8 %
Net assets at end of year	$ 24,063,888	$ 19,448,301	23.73 %	$ 14,103,874	37.9 %

Results and Analysis (Continued)

The 2010 year ended with an operating income (operating revenue over operating expenses before investment income and distributions are applied) of $2,541,555 that was increased by investment earnings of $2,824,032. Combined 2010 operating and non-operating income resulted in net earnings of $5,365,587 before distribution of member contribution credits. Net of the member contribution credits of $750,000, net assets increased by $4,615,587. In contrast, 2009 generated operating income of $1,987,226, which was increased by a net investment earnings of $3,857,140. Combined net earnings were $5,844,366 before a member contribution credit of $499,939. Net assets increased by $5,344,427.

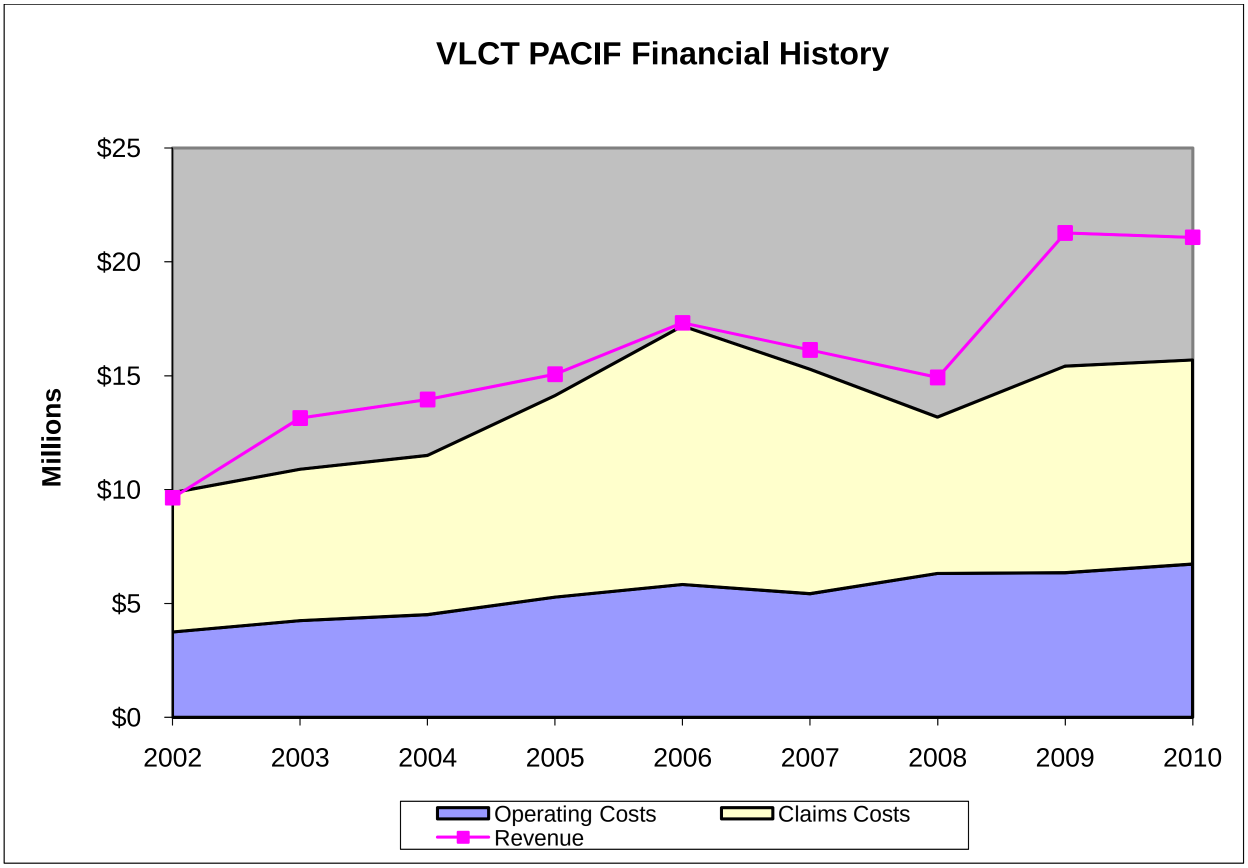
The 2010 incurred losses totaled $9,157,602. Incurred losses are comprised of two components: (1) the provision for losses which relate to insured events of the current year; (2) a charge (or credit) for adjustments to incurred losses for all prior policy years. The adjustment for all prior policy years is referred to as favorable or unfavorable development. The fund incurred losses of $8,363,446 on the 2010 policy year, and recorded unfavorable development of $794,156 on prior policy years from 1994 to 2009. The unfavorable development of prior years is primarily attributable to property, workers' compensation, auto and general liability lines of business, which was partially offset by favorable development on law enforcement and public officials lines. This reflects less than 1% of the total ultimate incurred of $86,224,072 for 1994 through 2010, as estimated by the actuary. Losses incurred during 2009 totaled $9,117,651. The Fund incurred losses of $8,460,639 on the 2009 policy year and recorded unfavorable development of $657,012. This reflects than 1% of the total ultimate incurred of $77,119,439 for 1994 through 2009, as estimated by the actuary.

While still a very good year for investment returns, compared to 2009, investment income net of fees decreased by 26.8% (including unrealized gains/losses). Interest and dividend income increased by 12.1%. The Fund had 81.5% of their investments in fixed-maturity securities and cash equivalents, and 18.5% invested in equity securities, including the investment in NLC Mutual Insurance Company. The Fund's investment policy calls for 75% fixed-maturity and 25% equities. While ranges have been included in the investment policy for types of investments within the Fixed and Equity categories, the Fund has chosen not to reallocate the portfolio at this time. The Fund’s fixed maturity investments had a weighted return net of fees of 7.34% (down from 13.61% last year), .78% above the Fund’s benchmark of 6.56%, which represents the Barclays Capital Aggregate benchmark. Equity investments had a weighted return of 16.63% (down from 32.98% last year), 0.3% below the Fund's benchmark of 16.93%, which represents the Russell 3000 benchmark and 1.57% above the Fund's benchmark of 15.06% which represents the S&P 500.

The graph below shows in summary form the trend of the Fund’s revenues and expenses. This graph reflects the variability of claims over time. Please note that Burlington left the Fund at the end of 2006. As seen in 2009, the increase in total net revenue reflects the Trust taking higher

Results and Analysis (Continued)

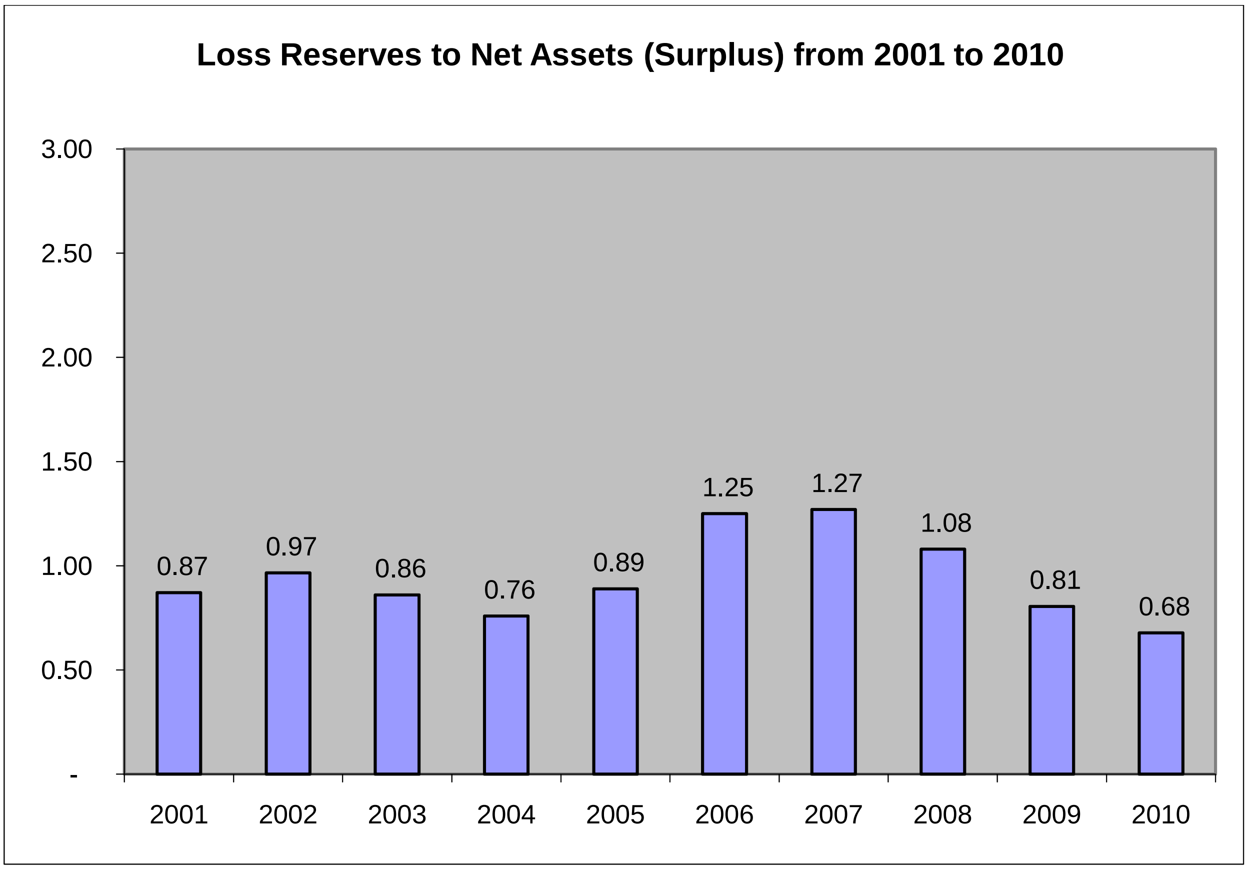
retentions which increased the net premiums and decreased the reinsurance premiums. The line representing total return shows that the Fund has been able to build surplus. The expenses do not include distributions, which are taken from prior year surpluses.



A way to measure the adequacy of the Fund's net assets is to analyze the accuracy of its loss development projections. Loss reserves are actuarially determined to pay claims as they develop over time. Measuring reserves against net assets gives an indication of the pool's solvency by looking at whether or not it is able to cover higher than expected losses due to claim development that exceeds the forecast. The higher the reserve to net assets ratio the more important it is to accurately estimate IBNR (incurred but not reported) claims to be certain that reserves are adequate to cover future claim costs. A high ratio may indicate that surplus is too low and there is a significant risk of insolvency if losses are greater than anticipated. A ratio of less than 3.00 (3:1) is considered a comfortable margin for deviations in expected reserve estimates. The Fund's loss reserve to surplus ratio over the past ten years is shown below.

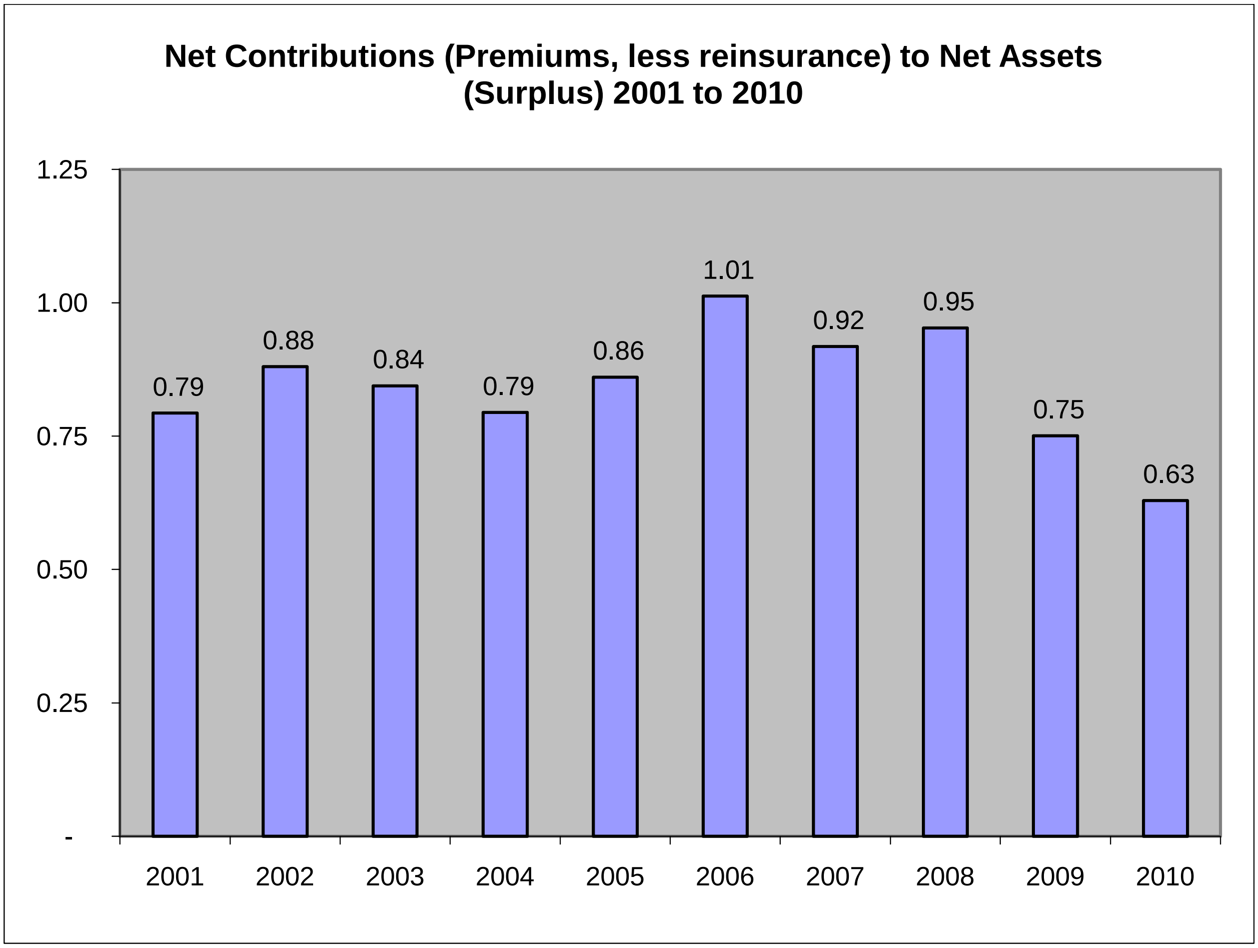
Results and Analysis (Continued)

Despite adverse claims development that occurred in 2005 and 2006, the ratio remains well below 3.00 (3:1). The improved claims development since 2007 helped strengthen surplus and the ratio continues to improve.



In addition to analyzing sufficiency of funds to cover for unexpected deficits and deviations from loss estimation, it is also necessary to determine if net assets will be adequate if the Fund’s pricing doesn’t cover potential losses. Net contributions (premiums, less reinsurance) to net assets ratios, as shown on the following chart, will measure this type of exposure. Anything over 3.00 means that there is significantly less net assets to cover unexpected losses, thereby increasing risk exposure. A ratio at or below 1.00 is considered a comfortable margin in public risk pools as a general rule. The Fund continues to improve from a high of 1.01 in 2006, with the impact of Burlington leaving the pool and the continuing improvement in overall loss development. Premiums increased, while the cost of reinsurance dropped, improving the ratio and the Fund’s surplus. The Fund's contribution to net assets ratio at December 31, 2010 is .63. Commercial standards use a 2:1 ratio as a benchmark, considering a 1:1 ratio to be a very strong position.

Results and Analysis (Continued)



The ten year trends in these three key ratios are indicators of a generally positive position when performance is analyzed on the basis of the ability to cover unanticipated losses or year end deficits. Potential problems that create fiscal stress include higher than projected losses in a given year or investment income that does not meet expectations, which the Fund experienced in 2002, 2005, 2006 and 2008. There may also be years when these situations occur simultaneously with both adverse claims development and low or even negative gains in income from investments. This makes it particularly important for the Fund to keep adequate net assets or surplus. Losses in 2006 were essentially absorbed by a surplus that was substantial enough to cover unexpected adverse development. Similarly, the Fund was able to absorb poor investment results in 2008. The Fund has a strong surplus level and is in good position to absorb future unexpected losses or poor investment earnings.

Results and Analysis (Continued)

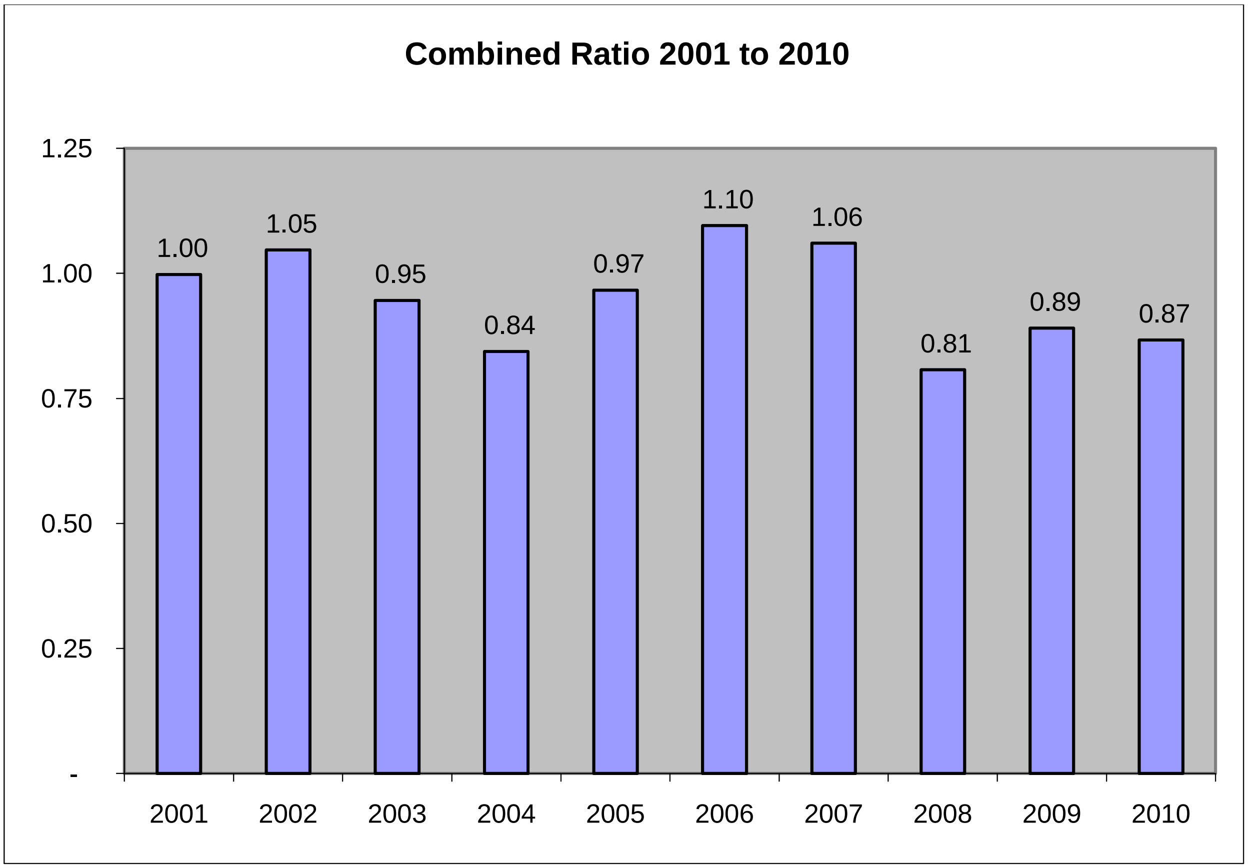
It should also be noted that there are two other factors to consider when analyzing the Fund's susceptibility to risk. First, liability and workers' compensation coverage is generally subject to more risk or unpredictability than is property coverage, so as these coverages increase as a percentage of overall exposures, so too does the risk. As a general rule, when you have more liability and workers' compensation exposures in your book of business, it becomes more important to show a lower contributions to net assets ratio. Liability and workers' compensation have a longer tail and as a result losses can be much less predictable over time. However, because the mix of liability and property coverage for pool members is stable over time, i.e., changes occur in membership rather than in lines of coverage, there would be little variability in the amount of risk over time that was attributable to a coverage shift.

Second, the higher the proportion of more risky investments in the investment portfolio, the greater is the impact of a bad investment year on any available net assets. The Fund currently has 18.5% of its investments in higher risk equities with 81.5% in less risky fixed-maturity securities and cash equivalents. However, with about half of the claims exposure in longer tail liability and workers compensation, the Fund has more time to recoup market losses and can thus tolerate more investment risk. Per our investment policy, our target for Equity investments is 25% but no more than 50% of Fund surplus.

The net contributions to net assets trend has been and continues to be well below the regulatory threshold of 3.00 and most years well under the public risk pool benchmark of 1.00 for both reserve to net assets and contributions to net assets ratios.

Another useful measure of the Fund's financial condition is the combined ratio, the total of the loss and expense ratios. It is a common insurance industry ratio with a benchmark of 100%. The difference between the combined ratio and 100% is an "underwriting gain" or an "underwriting loss". These losses can be offset by investment gains. Higher loss or expense ratios make it more important to maximize investment income in order to end the year with a surplus. That surplus, of course, may ultimately result in member distributions, depending on how losses develop over the course of time. The Fund experienced its highest combined ratio in 2006, after a run of adverse development in the prior two years. During 2007, the Fund began to see the reversal of this trend, and the prior year end, with its increase in premiums and improved loss development resulting in a greatly improved combined ratio.

Results and Analysis (Continued)



Outlook/Economic Factors

Fund year 2011 renewal contributions levels continued to reflect prior year results to the benefit of VLCT PACIF member municipalities. The efforts of the Members and VLCT risk management services staff in working together diligently to control losses are paying off resulting in rate reductions or flat pricing where warranted. Fund year 2011 required only a nominal overall increase in the amount of contribution required to maintain the Fund.

The PACIF Board of Directors voted to increase overall rates by 1.2% for 2011. This included a reduction to Workers' Compensation rates of five percent (-5%) on average. Property and Casualty program rates were kept at expiring rate except for Auto Liability, Property, Water/Sewer, Boiler and Crime and No Fault Sewer rates which were increased to better reflect actual loss experience.

Outlook/Economic Factors (Continued)

The Board of Directors designated $1,000,000 from Surplus to the membership based on an actuarial analysis of the financial status of prior Fund years. Of this total, $800,000 will be returned to members as contribution credits. In addition, $200,000 was allocated to fund the member safety grant program. Each Member's specific credit is derived via a formula that contemplates the fund years generating the surplus, the overall Fund loss ratio for those years, the number of surplus-generating years that the member was in the Fund, and the member's loss ratio in those years. The distribution credit is shown as credit against the member's 2011 PACIF contribution, and the member must renew in the Fund in order to receive the credit. Since the Fund's inception, PACIF has returned over $13 million in contribution credits to the membership.

The 2011 Coverage Document was updated with the bulk of the changes being technical in nature.

In 2010, the Board of Directors approved the purchase of the NavRisk claims management system to replace the ten year old Risk Envisions program. NavRisk claims installation took place during calendar year 2010 and the system went live in early 2011. This new claims system works hand in hand with our NavRisk underwriting management system.

PACIF is continuing to assist members in their risk management initiatives with a focus on Workers' Compensation. This is an area where we believe we can have a big impact on reducing claims and to drive down Member's contribution charges by helping them to help themselves. This is most effective when every employee, administrative staff person and the governing body of every member acknowledges that they all share in the responsibility to develop and maintain a culture of safety in the workplace and community. The WC rewards program (a structured program with emphasis on prescribed risk and claim management best practices) is in its third year with approximately a dozen members participating. The incident review process (IRP) is having a great impact on our more severe WC claims. Our efforts are showing results as lost time Workers' Compensation claim frequency and severity are down significantly over the last four years.

In addition to an emphasis on Workers' Compensation safety, PACIF continues to provide a wide range of training and education services to the membership including behind the wheel and simulated driver training. Chain saw safety training is also very popular and we have added advanced level classes to the program.

In 2010, PACIF also launched two widely popular programs. The first, the PACIF Grant Program provides a 50/50 funding match up to $5,000 for the purchase of specific safety related equipment. This program helped 40 members reduce losses due to the purchase of safety equipment that may not have been purchased without the grant.

Outlook/Economic Factors (Continued)

Also new in 2010, PACIF engaged the services of Public Agency Training Council and Legal and Liability Risk Management Institute (PATC/LLRMI) to develop model Law Enforcement practices and procedure policies. This firm has identified the twelve high risk critical tasks performed by law enforcement officers that generate ninety percent of law enforcement liability claims. The model policy manual has been completed and each municipal police department has received a copy upon attending a "train the trainer" course.

2011 will bring another new program to life that should be widely utilized by our members. The PACIF Scholarship program will provide reimbursement to members for risk management related trainings. The program will provide individual scholarships up to $500 and group scholarships up to $2,500. This program will help our members attend trainings and seminars that they may not have attended without the scholarship.

The success of the VLCT PACIF program is a testament of the power of pooling - VT municipalities joining together for mutual benefit. It is our intent to continue to relentlessly pursue PACIF’s over-arching mission to provide member municipalities with broad coverage and superior risk management services and consultation for a fair and competitive price.

Requests for Information:

For additional information, please contact the Finance Department of the Vermont League of Cities and Towns, 89 Main Street, Suite 4, Montpelier, Vermont, 05602-2948, or call 802-229-9111.

VLCT Property and Casualty Intermunicipal Fund, Inc.

Statements of Net Assets

	As of December 31, 2010	2009
Assets		
Investments		
Fixed-maturity securities, at fair value	$ 29,893,775	$ 24,704,990
Mutual funds, at fair value	5,141,743	4,475,235
Investment in NLC Mutual Insurance Company	1,939,063	1,846,727
Total investments	36,974,581	31,026,952
Cash and cash equivalents	4,140,565	4,464,655
Accrued investment income	323,753	296,801
Contributions receivable	484,617	732,801
Accounts receivable - deductibles and subrogation	588,438	337,504
Prepaid expenses	488,776	399,214
Reinsurance recoverable - paid losses	215,936	844,016
Other assets	683,174	341,409
Total Assets	$ 43,899,840	$ 38,443,352
Liabilities and Net Assets		
Liabilities		
Losses and loss adjustment expenses, net of reinsurance	$ 15,383,674	$ 14,911,010
Accounts payable	152,021	190,511
Contributions collected in advance	3,363,227	3,125,767
Claims expense and workers' compensation state assessment reserve	937,030	767,763
Total liabilities	19,835,952	18,995,051
Net Assets		
Board designated	1,902,724	1,731,689
Unrestricted	22,161,164	17,716,612
Total net assets	24,063,888	19,448,301
Total Liabilities and Net Assets	$ 43,899,840	$ 38,443,352

See accompanying notes to the financial statements.

VLCT Property and Casualty Intermunicipal Fund, Inc.

Statements of Contributions, Expenses, and Changes in Net Assets

	Years ended December 31, 2010	2009
Operating Revenues		
Fund contributions	$ 18,077,511	$ 17,320,161
Other income	41,866	23,220
Total operating revenues	18,119,377	17,343,381
Operating Expenses		
Losses and loss adjustment expenses, net of reinsurance	9,157,602	9,117,651
General and administrative expenses	3,435,890	3,502,159
Reinsurance expenses	2,837,441	2,569,456
Broker fees for reinsurance	146,889	166,889
Total operating expenses	15,577,822	15,356,155
Operating income	2,541,555	1,987,226
Non-Operating Revenues (Expenses)		
Investment income - interest and dividends	1,321,047	1,178,746
Investment income - net change in fair value	1,521,391	2,563,492
Investment income - NLC Mutual Insurance Company	92,336	179,606
Investment management fees	(110,742)	(64,704)
Net non-operating revenue	2,824,032	3,857,140
Member distributions - contribution credit	750,000	499,939
Non-operating income, net	2,074,032	3,357,201
Change in Net Assets	4,615,587	5,344,427
Net Assets, Beginning of Year	19,448,301	14,103,874
Net Assets, End of Year	$ 24,063,888	$ 19,448,301

See accompanying notes to the financial statements.

VLCT Property and Casualty Intermunicipal Fund, Inc.

Statements of Cash Flows

	Years ended December 31, 2010	2009
Cash Flows from Operating Activities		
Receipts from members	$ 17,813,155	$ 17,537,870
Receipts for miscellaneous income	41,866	23,220
Payments for reinsurance expenses	(2,927,003)	(2,521,365)
Net payments for claims and claims adjustment expenses	(8,138,525)	(8,495,262)
Payments for administrative and general expenses	(3,963,034)	(3,912,237)
Net cash provided by operating activities	2,826,459	2,632,226
Cash Flows from Investing Activities		
Cost of investments purchased	(18,312,263)	(42,546,310)
Proceeds from sales and maturities of investments	13,886,021	37,426,081
Net receipts for interest and dividends	1,275,693	1,227,567
Net cash used in investing activities	(3,150,549)	(3,892,662)
Net change in cash and cash equivalents	(324,090)	(1,260,436)
Cash and Cash Equivalents, Beginning of Year	4,464,655	5,725,091
Cash and Cash Equivalents, End of Year	$ 4,140,565	$ 4,464,655
Reconciliation of Net Income to Net Cash Provided By Operating Activities		
Operating Income	$ 2,541,555	$ 1,987,226
Add (deduct) items not affecting cash:		
Member distributions - contribution credit	(750,000)	(499,939)
Changes in assets and liabilities:		
Contributions receivable	248,184	451,598
Accounts receivable - deductibles and subrogation	(250,934)	60,962
Prepaid expenses	(89,562)	48,091
Reinsurance recoverable - paid losses	628,080	121,164
Other assets	(341,765)	(94,369)
Losses and loss adjustment expenses, net of reinsurance	472,664	428,074
Accounts payable	(38,490)	(148,820)
Contributions collected in advance	237,460	266,050
Claims expense and workers' compensation state assessment reserve	169,267	12,189
Net Cash Provided by Operating Activities	$ 2,826,459	$ 2,632,226

See accompanying notes to the financial statements.

Note A - Organization and Nature of Operations

VLCT Property and Casualty Intermunicipal Fund, Inc. ("the Fund") was established in June 1986, to (1) provide, directly and indirectly, members of the Vermont League of Cities and Towns ("VLCT") with various forms of property, workers' compensation, casualty and fidelity insurance, reinsurance, and excess insurance through admitted and surplus lines carriers, (2) develop self-insurance and risk retention pools for the benefit of members of VLCT, (3) act as an advocate before governmental regulatory agencies with respect to municipal property and casualty insurance coverage and availability, and (4) develop, promote and implement risk management, risk containment and loss control programs for the benefit of Vermont municipalities and their employees.

Political subdivisions joining the Fund must remain members for a minimum of one year and may withdraw from the Fund after that time by giving notice sixty (60) days prior to the end of the fund year. Fund underwriting and rate setting policies have been established after consultation with an actuary. Fund members are subject to a supplemental assessment in the event of deficiencies. If the assets of the Fund were to be exhausted, members would be responsible for the Fund’s liabilities. At December 31, 2010 and 2009, the Fund provided property and casualty and workers' compensation coverage to 354 and 351 political subdivisions including cities, towns, villages and special districts providing water, solid waste management and fire protection.

The Fund receives its contributions from municipalities based upon the loss experience of the Fund, operating expenses, excess insurance and reinsurance costs, and exposures for each member. Such contributions are used to pay all administrative expenses, reinsurance costs, claims and claims-related costs. The Fund maintains separate funds for each plan year to reserve monies for claims related to those years.

Fund members may be subject to an additional assessment for an amount determined by the Fund's Board of Directors ("the Board") to fund the loss fund. In the event that an assessment is required, such assessment shall be made against individual members in the proportionate share of each member's contribution to the total contribution for that fund year. The Board shall adjust the assessment of members prior to the commencement of each subsequent fund year, upon the advice of an actuary as to the extent of loss fund deficiency. No such assessment has been determined since the Fund's inception in 1986.

Note B - Summary of Significant Accounting Policies

Basis of Accounting
The accounting policies of the Fund follow U.S. generally accepted accounting principles ("GAAP") applicable to public entity risk pools, as prescribed by the Government Accounting Standards Board ("GASB"). Accordingly, the Fund adheres to all GASB pronouncements. The Fund may also apply other pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Those standards include: Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board opinions and Accounting Research Bulletins of the Committee on Accounting Procedure, all of which are collectively included in the FASB Accounting Standards Codification. The Fund uses the economic resources measurement focus and the accrual basis of accounting and is accounted for as a proprietary enterprise fund.

Subsequent Events
The Fund has evaluated subsequent events for disclosure and recognition through March 16, 2011, the date on which these financial statements were available to be issued.

Fund Detail
The Fund's fiscal year is January 1 through December 31 and there are a total of twenty-five funds, twenty-four of them constituting fund years to account for claims in their respective policy years. The remaining fund, the Surplus Reserve Fund, was established in prior years to provide additional funds for more aggressive investments to cover unanticipated deficits in the individual fund years, as well as provide a replacement "cushion" when aggregate insurance was discontinued. The Surplus Reserve Fund enables the Fund to take on more risk with higher self-insured retentions and long-term investment strategies, as well as absorb any unusual growth in membership and/or claims. Prior to 2010, the Fund also maintained and Aggregate Reserve Fund. In 2009, the Aggregate Reserve Fund was discontinued and the balance was transferred to the Surplus Reserve Fund.

Use of Estimates
The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein. Significant estimates included in these financial statements primarily relate to the assumptions and methods used to estimate the ultimate liability for unpaid losses as described below.

The Fund's operating results and financial condition are affected by numerous factors and circumstances inherent within the insurance industry, some of which it can neither predict nor control. Among them are (1) the Fund's ability to enter into suitable future reinsurance agreements is subject to prevailing conditions in the reinsurance markets which may change risk-

Note B - Summary of Significant Accounting Policies (Continued)

retention levels; (2) fluctuations in interest rates affect the value and income yield of the Fund's investment portfolio in the short-term, and often affect default and prepayment rates over time; (3) future inflation may result in ultimate loss settlements different from the amounts originally anticipated; (4) future catastrophic or unusual losses, such as the effects of the terrorist attacks of September 11, 2001, may distort historical experience; and (5) losses may not fully emerge for several years following the year in which the insured event occurred. Should any of these or similar events occur, the Fund’s operating results and financial condition may be affected.

Investments
The Fund accounts for its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* ("Statement No. 31"). Statement No. 31 establishes fair value standards on accounting for all investments held by governmental external investment pools and governmental entities. All investment income, including changes in the fair value of investments, is recognized in the statements of contributions, expenses and changes in net assets. Realized gains and losses on the sale of investments are recognized on the specific identification basis to determine the costs of the investments sold. The calculation of realized gains and losses is independent of the calculation of the net change in fair value of investments. Realized gains and losses on investments that had been held for more than one year and sold in the current year were included as a change in the fair value of investments reported in the prior years and the current year. Investment purchases are recognized on the trade date. Investments are stated at fair value based on quoted market prices or through a recognized pricing service.

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures - an amendment of GASB Statement No. 3*, certain disclosures regarding deposit and investment risks have been provided in Note D.

Investment in NLC Mutual Insurance Company
The Fund is a member of the NLC Mutual Insurance Company ("NLC"), which qualifies as a joint venture in accordance with GASB Statement No. 14, *The Financial Reporting Entity*. Accordingly, the Fund initially recorded its interest at cost and subsequently records its equity interest calculated in accordance with the relevant participation agreements based on audited financial statements provided by NLC. Due to the nature of this investment, there is no readily determinable fair value as more fully described in Note E.

Cash and Cash Equivalents
The Fund’s cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date acquired by the Fund, except mutual funds and cash equivalents in the investment account held by the People's United Bank, as these are included within investments.

Note B - Summary of Significant Accounting Policies (Continued)

The Fund's carrying amount of cash deposits and the bank balance at December 31, 2010 and 2009 were as follows:

	December 31, 2010		December 31, 2009	
	Book Balance	Bank Balance	Book Balance	Bank Balance
Insured/FDIC	$ 250,000	$ 250,000	$ 250,000	$ 250,000
Uninsured, Collateralized by US Gov't and Agency Securities held by the People's United Bank Trust Department with a security interest granted to the Fund	3,890,565	4,158,585	3,935,101	3,935,101
Unsecured and Uncollateralized	-	-	279,503	451,334
Petty Cash	-	-	51	-
Total	$ 4,140,565	$ 4,408,585	$ 4,464,655	$ 4,636,435

The difference between the book balance and the bank balance is due to reconciling items such as deposits in transit and outstanding checks, as well as petty cash on hand.

The Federal Deposit Insurance Corporation (FDIC) insures amounts on deposit up to the limits as prescribed by law. The Fund holds funds with financial institutions in excess of the FDIC insured amount, however, the Fund has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk on cash and cash equivalents. During 2010, the Fund's deposits with People's United Bank became fully collateralized.

Fund Contributions
Contributions are assessed on an individual member basis in advance of each fund year and are considered to be earned in the fund year to which they apply. The members' contributions are calculated based on rates provided by an actuary and reinsurers and are adjusted, where applicable, for individual member experience. Contributions ceded to other companies pursuant to reinsurance agreements have been reported as reinsurance expenses.

Contributions Collected in Advance
Contributions received prior to the fund year to which they apply are classified as contributions collected in advance on the statements of net assets.

Note B - Summary of Significant Accounting Policies (Continued)

Contributions Receivable
Contributions receivable consist primarily of billed premiums not yet collected. Management anticipates no uncollectible accounts, and therefore, has not established an allowance for doubtful accounts.

Losses and Loss Adjustment Expenses, Net of Reinsurance
The liability for unpaid losses and loss adjustment expenses includes case basis estimates for reported losses, plus amounts for incurred but not reported losses ("IBNR") calculated based on loss projections using the Fund's historical claim data. In establishing the liability for losses and loss adjustment expenses, the Fund utilizes the findings of an independent consulting actuary. Such reserves are presented net of reinsurance recoverable on unpaid losses and loss adjustment expenses. Reinsurance recoverables may not be collected until after such losses are paid by the Fund. Estimated amounts of salvage and subrogation are deducted from the liability for unpaid losses.

Management has recorded its reserves based on the actuary's point estimate and believes that its aggregate liability for unpaid losses and loss adjustment expenses at year end represents its best estimate, based upon the available data, for the amount necessary to cover the ultimate cost of losses. However, because of the limited population of insured risks, jury decisions, court interpretations, legislative changes, changes in the medical condition of claimants, statutorily mandated changes in benefits or the delivery of those benefits, public attitudes, and social/economic conditions such as inflation and other uncertainties, it is not presently possible to determine whether actual loss experience will conform to the assumptions used in estimating the liability. As a result, the actual liability may be significantly in excess of or less than the amount indicated in the financial statements. As adjustments to these estimates become necessary, such adjustments are reflected in current operations.

A portion of the net assets has been designated as a safety margin or reserve for adverse development to increase the probability to a 90% confidence level so that sufficient funds are available to cover all losses, as further described in Note I.

The liability for unpaid losses and loss adjustment expenses are recorded net of applicable reinsurance recoverable amounts. Reinsurance recoverable amounts are comprised of estimated amounts of unpaid losses and loss adjustment expenses, which are expected to be recoverable from the Fund's reinsurers pursuant to reinsurance agreements. Such amounts have been estimated using actuarial assumptions consistent with those used to estimate the related liability for unpaid losses and loss adjustment expenses. Management believes that the reinsurance recoverable represents its best estimate of such amounts; however, as changes in the estimated ultimate liability for losses and loss adjustment expenses are determined, the estimated ultimate amount receivable from the reinsurance companies will also change. Accordingly, the ultimate

Note B - Summary of Significant Accounting Policies (Continued)

receivable could be significantly in excess of or less than the amount indicated in the notes to the financial statements. As adjustments to these estimates become necessary, such adjustments are reflected in current operations.

Claims Expense and Workers' Compensation State Assessment Reserve
The claims expense and workers' compensation state assessment reserve is maintained for the cost of administering claims to their conclusion, based on open claims and for the future state assessments on workers' compensation on future claim payments as of December 31, 2010 and 2009. In establishing the liability for the claims and workers' compensation state assessment reserve, the Fund utilizes the findings of an independent consulting actuary.

Reinsurance
The Fund maintains occurrence basis reinsurance agreements related to each particular line of coverage to reduce its exposure to large losses. The Fund evaluates the financial condition of its reinsurers and monitors concentrations of credit risk to minimize exposure to losses from reinsurer insolvencies. In preparing financial statements, management makes estimates of amounts recoverable from reinsurers, which include consideration of amounts, if any, estimated to be uncollectible by management. Management evaluated the creditworthiness of its reinsurers and determined that no valuation allowance was required as of December 31, 2010 and 2009. In the event that any or all of the reinsuring companies are unable to meet their obligations under existing agreements, the Fund remains contingently liable for such defaulted amounts.

Reinsurance recoverable on paid losses and loss adjustment expenses are presented as an asset in the accompanying statements of net assets. Reinsurance recoverable on unpaid losses was $4,332,410 and $2,323,720 as of December 31, 2010 and 2009, respectively, and is netted against the liability for unpaid losses and loss adjustment expenses on the statements of net assets.

Income Taxes
The Fund is incorporated as a nonprofit corporation under the Vermont Nonprofit Corporation Act. The Fund’s income is tax-exempt under Internal Revenue Code Section 115, which pertains to political subdivisions. Accordingly, the accompanying financial statements do not include a provision for federal or state income taxes.

Deferred Policy Acquisition Costs
Policy acquisition costs represent the costs of writing insurance business that vary with and are primarily related to the production of insurance policies. Policy acquisition costs primarily includes underwriting costs and reinsurance brokerage fees. Policy acquisition costs are deferred and recognized as expenses as related premiums are earned. As of December 31, 2010 and 2009, there were no deferred policy acquisition costs as all policy premiums were fully earned.

Note B - Summary of Significant Accounting Policies (Continued)

Classification of Revenues and Expenses
The Fund reports itself as a business-type activity as defined in GASB 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments.* Business-type activities are financed in whole or in part by fees charged to external parties. Business-type activities distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Fund's enterprise fund include fund contributions (premiums) and fees received from providing services. Operating expenses include claims paid, reinsurance premiums, and the costs of providing services and operating all programs. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Reclassifications
Certain reclassifications have been made in the 2009 audited financial statements to conform to the 2010 presentation, which had no effect on net assets or change in net assets.

Note C - Affiliated Organizations and Related Party Transactions

The accompanying financial statements represent the general operations of the Fund and do not include the operations and financial condition of VLCT or other affiliated organizations.

VLCT provides staff, office space and equipment usage to the Fund. For the years ended December 31, 2010 and 2009, total VLCT expenses allocated to the Fund were $2,429,574 and $2,477,005, respectively, which amounted to 58.8% and 58.4%, respectively, of total allocable VLCT expenses. The following VLCT expenses are attributable to the Fund:

- Salary and benefits for administrative staff including finance, human resource, production and general administrative support
- Office costs including all building-related expenses and insurances
- Equipment and communications costs
- Printing and supplies
- Travel and training for administrative functions
- Non-Trust Officers costs
- Contracted service
- Dues and subscriptions for administrative staff
- Services provided for administrative activities
- Miscellaneous costs related to administrative activities

Note C - Affiliated Organizations and Related Party Transactions (Continued)

For 2010, 26% of the expenses paid were for administration and marketing, 19% for underwriting, 34% for claims handling and 21% for loss prevention.

For 2009, 29% of the expenses paid were for administration and marketing, 14% for underwriting, 33% for claims handling and 24% for loss prevention.

Note D - Investments

The Fund's investment policy, as approved by the Board, contains certain provisions and limitations intended to mitigate the Fund's exposure to various investment risks, such as credit risk (including custodial risk and concentration risk) and interest rate risk, as follows:

- *Credit risk* - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk is measured by an assigned rating from a nationally recognized credit rating agency such as Standard and Poor's or Moody's Rating Services. These organizations look at a number of factors in order to evaluate the credit risk of an obligation and rate the risk. This rating allows investors to make informed buying and selling decisions. The Fund's investment policy is structured with limitations and guidelines intended to mitigate the components of credit risk as summarized in the following two bullet points.

- *Custodial credit risk* - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Fund will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Neither the Vermont Statutes nor the Fund's investment policy guidelines contain requirements limiting custodial credit risk other than indicating that "prudent investment policies" should be followed. An agreement with the People's United Bank, the custodial financial institution for the investment portfolio, is in place and indemnifies the Fund against losses caused by negligence or dishonesty.

- *Concentration of credit risk* - Concentration risk is the risk of loss attributable to the magnitude of an investment in a single issuer (with the exception of U.S. Government Obligations, which have no limit) to 5%. There are no single investments that exceed this limit as of December 31, 2010 and 2009.

Note D - Investments (Continued)

- *Interest rate risk* - Interest rate risk is the risk that changes in 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 interest rates. The Fund's investment policy limits the average effective duration to 8 years.

The following table provides a summary of the fair value of the Funds fixed-maturity security investment portfolio by contractual maturity as of December 31, 2010. The expected maturities in the following table may differ from the contractual maturities because certain borrowers may have the right to call or prepay obligations with or without penalty.

	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	Total
U.S. Treasuries	$ 982,547	$ 1,000,348	$ 128,360	$ 636,648	$ 2,747,903
U.S. Agencies	-	-	-	2,066,919	2,066,919
U.S. Agency MBS	-	-	924,468	535,437	1,459,905
Corporate Bonds	1,463,371	6,019,816	6,243,823	8,851,461	22,578,471
Municipal Bonds	-	-	292,867	747,710	1,040,577
Total	$ 2,445,918	$ 7,020,164	$ 7,589,518	$ 12,838,175	$ 29,893,775

The table below outlines the Standard and Poor's credit ratings of the Fund's fixed-maturity security investment holdings as of December 31, 2010:

	U.S. Treasuries	U.S. Agencies	U.S. Agency MBS	Corporate Bonds	Municipal Bonds	Total
AAA	$ 2,747,903	$2,066,919	$ 1,459,905	$ 5,218,489	$ 128,565	$ 11,621,781
AA	-	-	-	989,888	-	989,888
A	-	-	-	4,551,230	189,275	4,740,505
AA+	-	-	-	1,164,116	132,389	1,296,505
A+	-	-	-	1,837,844	292,867	2,130,711
AA-	-	-	-	1,229,277	297,481	1,526,758
A-	-	-	-	2,523,463	-	2,523,463
BBB	-	-	-	997,765	-	997,765
BBB+	-	-	-	3,114,366	-	3,114,366
Not Rated	-	-	-	952,033	-	952,033
Total	$ 2,747,903	$2,066,919	$ 1,459,905	$ 22,578,471	$ 1,040,577	$ 29,893,775

Note D - Investments (Continued)

The effective duration is used to assess interest rate risk by estimating the sensitivity of fixed income securities to interest rate changes. The effective duration estimates the percentage change in the market value of an investment (or an investment portfolio) for a one percent change in interest rates. It makes assumptions regarding the most likely timing and amounts of variable cash flows for investments that are highly sensitive to interest rate changes, such as mortgage-backed securities, callable bonds and variable-rate debt.

The following were the effective durations of fixed-maturity security investments held by the Fund as of December 31, 2010:

	Fair Value	Effective Duration
U.S. Treasuries	$ 2,747,903	4.62
U.S. Agencies	2,066,919	5.03
U.S. Agency MBS	1,459,905	4.68
Corporate Bonds	22,578,471	5.47
Municipal Bonds	1,040,577	9.85
Total	$ 29,893,775	5.43

The average effective duration of the investment portfolio as of December 31, 2010 and 2009, was 5.43 and 5.11 years, respectively.

The following table shows the classifications of the Fund's mutual fund investments as of December 31, 2010 and 2009:

Classification	2010 Fair Value	2009 Fair Value
Large Cap Blend	$ 1,171,643	$ 1,061,735
Large Cap Growth	784,197	729,297
Large Cap Value	687,622	608,440
Mid Cap Growth	880,207	714,181
Mid Cap Value	788,063	669,270
Small Cap Blend	830,011	692,312
Total	$ 5,141,743	$ 4,475,235

Note D - Investments (Continued)

Net realized gains on the sale of investments were $415,343 and net unrealized gains attributable to the change in fair value of investments were $1,106,048 for the year ended December 31, 2010. Net realized gains on the sale of investments were $452,218 and net unrealized losses attributable to the change in fair value of investments were $2,111,274 for the year ended December 31, 2009.

Note E - Investment in NLC Mutual Insurance Company

The Fund is a member of NLC which is a Vermont captive mutual insurance company founded with the assistance of the National League of Cities to provide reinsurance to state league sponsored risk sharing pools. Members make capital contributions and pay premiums in exchange for reinsurance. An analysis of the change in the Fund's investment in NLC is as follows:

	2010	2009
Capital contribution	$ 494,577	$ 494,577
Accumulated equity in earnings of NLC	1,444,486	1,352,150
Total investment in NLC	$ 1,939,063	$ 1,846,727

The Fund recognized investment income from NLC of $92,336 and $179,606 for the years ending December 31, 2010 and 2009, respectively.

At the sole discretion of the Fund, an election can be made to withdraw from NLC by giving written notice. The capital and accumulated earnings of $1,939,063 and $1,846,727 at December 31, 2010 and 2009, respectively, will be paid to the Fund after the designated number of years selected by the Fund after the completion of the first fiscal year following the termination notice. The Fund continues to be eligible to receive distributions to its capital account until the funds are returned and the account is closed. Termination of membership does not relieve the Fund of any liabilities and obligations for any unpaid capital contributions, required additional capital or annual premium, except that required additional capital shall be limited to forfeiture of the remaining balance in the Fund’s capital account. Any undistributed percentage of retained earnings shall be forfeited by the Fund. This methodology began during 2008.

Note E - Investment in NLC Mutual Insurance Company (Continued)

The percentage of retained earnings distributed is as follows:

No. of Years After Computation Date	% of Retained Earnings Distributed
2	20
3	30
4	40
5	50
6	60
7	70
8	80
9	90
10	100

Note F - Contributions Receivable

All estimated contributions must be collected in accordance with the membership agreement. As of December 31, 2010 and 2009, no allowance for doubtful collection was recorded by the Fund based on management's analysis of contributions receivable. There were no write-offs of contributions receivable during 2010. During 2009, the Fund wrote off $102,215 of contributions receivable relating to the City of Burlington due to a reduction in the Fund's estimate of ultimate net losses.

Contributions receivable includes contributions billed but not currently due from the City of Burlington of $297,968 and $548,377 at December 31, 2010 and 2009, respectively. Contributions receivable also include current receivables due from other municipalities of $186,649 and $184,424 at December 31, 2010 and 2009, respectively.

Note F - Contributions Receivable (Continued)

The agreement with the City of Burlington calls for contributions for the loss fund to be billed at a percentage of total claims up to a maximum as follows:

Year	Percentage	Maximum
1992	29.40 %	$ 312,500
1993	29.40 %	$ 562,108
1994	25.00 %	$ 608,548
1995	20.00 %	$ 620,923
1996	18.00 %	$ 729,481
1997	14.86 %	$ 579,570
1998	18.60 %	$ 725,276
1999	19.50 %	$ 760,590
2000	20.47 %	$ 818,947
2001	21.82 %	$ 1,073,302
2002	21.28 %	$ 1,138,664
2003	16.44 %	$ 1,145,589
2004	13.86 %	$ 1,067,143
2005	14.90 %	$ 1,191,920
2006	13.60 %	$ 1,223,910

Fund years 1992, 1997 - 2000, 2002 and 2005 currently have no receivables outstanding at December 31, 2010, as they have reached the maximum.

Note G - Liability for Unpaid Losses, Net of Reinsurance

As discussed in Note B, the Fund establishes an estimated liability for unpaid losses for both reported and unreported insured events, which include estimates of both future payments of losses and related claim adjustment expenses. This liability for unpaid losses is estimated by an independent actuary based on claims information as of December 31, as well as assumptions for changes in membership and insurance product offerings. The Fund does not discount its loss reserves.

Note G - Liability for Unpaid Losses, Net of Reinsurance (Continued)

The components of the liability for losses and loss adjustment expenses and related reinsurance receivable are as follows at December 31:

	2010	2009
Case-basis reserves	$ 12,110,612	$ 10,628,501
IBNR reserves	7,605,472	6,606,229
Gross reserves	19,716,084	17,234,730
Reinsurance recoverable on unpaid losses	(4,332,410)	(2,323,720)
Net reserves	15,383,674	14,911,010
Claims expense and WC state assessment reserve	937,030	767,763
Total net reserves	$ 16,320,704	$ 15,678,773

The following represents changes in the liability for unpaid losses and loss adjustment expenses, net of the effects of reinsurance, during the years ended December 31:

	2010	2009
Liability at beginning of year, net of reinsurance receivable of $2,323,720 and $1,395,981	$ 15,678,773	$ 15,238,510
Provision for losses:		
Provision for insured events of the current year	8,363,446	8,460,639
Increase in provision for insured events of prior years	794,156	657,012
Total provision for losses	9,157,602	9,117,651
Payments:		
Claims and claims adjustment expenses attributable to insured events of the current year	3,130,670	2,645,996
Claims and claims adjustment expenses attributable to insured events of the prior years	5,385,001	6,031,392
Total payments	8,515,671	8,677,388
Liability at end of year, net of reinsurance receivable of $4,332,410 and $2,323,720	$ 16,320,704	$ 15,678,773

Note G - Liability for Unpaid Losses, Net of Reinsurance (Continued)

During 2010, the Fund experienced unfavorable loss development of prior years related to the 2007 and 2009 workers' compensation and general liability lines of business. The unfavorable development was partially offset by favorable development related to the 2008 and 2009 law enforcement and the 2006 and 2009 public officials lines of business. During 2009, the Fund experienced unfavorable loss development of prior years related to the 2004 and 2005 property, workers' compensation and general liability lines of business. The unfavorable development was partially offset by favorable development related to the 2007 and 2008 law enforcement and public officials lines of business.

Note H - Insurance Activity

Since its inception, the Fund has maintained various quota-share and excess of loss reinsurance agreements to limit its exposure to large claims. Such reinsurance reduces the magnitude of sudden and unpredictable changes in net assets; however, the Fund remains contingently liable should the reinsurers fail for any reason to perform their obligations under the agreements.

Reinsurance in place is as follows:

Line of Coverage	Reinsurance Term	Fund Retention	Policy Limit
Property	1/1/2009-1/1/2011	$500,000	$500,000,000
	1/1/2005-1/1/2009	$150,000	$500,000,000
	1/1/1996-1/1/2005	$150,000	$50,000,000
Casualty	1/1/2010-1/1/2011	$500,000	$5,000,000
	1/1/2005-1/1/2010	$500,000	$2,000,000
	1/1/1996-1/1/2005	$250,000	$2,000,000
Workers'	1/1/2006-1/1/2011	$500,000	Statutory/$5,000,000
Compensation	1/1/2005-1/1/2006	$350,000	Statutory/$5,000,000
	1/1/1996-1/1/2005	$250,000	Statutory/$5,000,000
Boiler & Machinery	1/1/1996-1/1/2011	$100,000	$50,000,000

Amounts in excess of the Fund's retentions are ceded to various reinsurers up to various policy limits which also contain various sublimits.

For the years ended December 31, 1998-2000, the Fund maintained a quota-share reinsurance agreement with NLC for 50% participation applied to all lines of business. Reinsurance recoverable from NLC amounted to $65,382 and $76,035 at December 31, 2010 and 2009, respectively.

Note I - Net Assets

In accordance with laws of the State of Vermont ("the State"), for the purpose of submitting financial statements to the State for regulatory purposes, the Fund is required to use GAAP with the exception of variances prescribed by Vermont laws and regulations or permitted by the Vermont Department of Banking, Insurance, Securities and Health Care Administration ("the Department").

Net assets accrue to the benefit of the participants as earned. Any funds not needed to pay claims and maintain prudent reserves will be available for distribution to the members or credited toward future member contributions, as determined by the Board. Alternately, the Board and management of the Fund may increase retentions on reinsurance policies or offer additional services to the members. The Board has elected to designate a portion of the fund balance to increase the probability to a ninety percent (90%) confidence level that sufficient funds are available to cover all losses. This amount has been estimated by the Fund’s actuary and has been discounted to account for the significant time difference between the collection of premiums and the payment of claims. The amount designated for this purpose at December 31, 2010 and 2009 was $902,724 and $981,689, respectively.

Per State regulation, no distribution of the surplus funds shall be made earlier than twenty-four (24) months, without approval from the Commissioner, following the end of the Fund's fiscal year for which a surplus was declared. Such distribution shall not be made until certified by an actuary. If the distribution is in excess of 10% of the Fund's surplus, it shall be considered an extraordinary distribution and shall require prior approval of the Department. Application for the extraordinary distribution shall be submitted to the Department for approval and certified by an actuary.

The Board designates premium credits, based on actuarial recommendation, for certain prior fund years. The credits are applied towards subsequent fund year premium contributions and expensed on the statement of contributions, expenses and change in net assets. Designated contribution credits for 2010 and 2009 of $1,000,000 and $750,000, respectively, are included as designated net assets on the statement of net assets. The Board approved a total of $1,000,000 for 2011; $800,000 for contribution credits to be allocated to individual members and $200,000 for the member safety grant program from the fund years as follows:

Year	2011 Credits	2010 Credits	2009 Credits
2002	$ 58,194	$ 21,152	$ 64,001
2003	201,903	52,540	101,713
2006	222,157	152,308	178,453
2007	268,411	222,828	155,772
2008	249,335	301,172	-
Total	$ 1,000,000	$ 750,000	$ 499,939

Note J - Commitments and Contingencies

The Fund is involved in various claims and legal actions arising in the ordinary course of business, which are considered in the estimate of the liability for losses and loss adjustment expenses.

VLCT Property and Casualty Intermunicipal Fund, Inc.

Claims Development Information

December 31, 2010

This table illustrates how the Fund's earned revenues (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Fund as of the end of each of the last ten years.

The rows of the table are defined as follows:

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

The columns of the table show data for successive policy years.

VLCT Property and Casualty Intermunicipal Fund, Inc.

Claims Development Information

December 31, 2010

	Fiscal and Policy Year Ended (in thousands of dollars)									
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
(1) Gross contributions and investment income	$ 18,405	$ 17,286	$ 16,105	$ 15,102	$ 15,913	$ 14,717	$ 13,137	$ 12,515	$ 10,598	$ 8,127
(2) Less: Reinsurance expenses	2,988	2,728	2,805	2,523	2,783	2,512	2,308	1,981	1,473	980
(3) Net earned premiums and investment income	15,417	14,558	13,300	12,579	13,130	12,205	10,829	10,534	9,125	7,147
(4) Unallocated expenses	3,415	3,505	3,610	3,008	2,927	2,649	2,296	2,297	2,034	1,762
(5) Estimated losses and allocated expenses incurred, net at the end of year:	8,363	8,461	8,250	9,411	9,423	8,583	7,563	6,764	6,442	4,493
(6) Net paid (cumulative) as of:										
End of policy year	3,131	2,646	2,509	2,881	2,321	2,689	2,584	2,048	1,794	1,285
One year later		5,214	4,432	4,848	5,044	5,719	4,648	4,101	3,759	2,240
Two years later			5,162	5,985	6,478	7,497	5,843	5,242	4,675	3,266
Three years later				6,566	7,390	8,574	7,019	5,988	5,231	3,728
Four years later					7,681	9,183	7,759	6,396	5,414	4,109
Five years later						9,962	8,805	6,643	5,570	4,253
Six years later							9,047	6,732	5,650	4,289
Seven years later								6,791	5,700	4,555
Eight years later									5,870	4,766
Nine years later										4,768
(7) Reestimated net incurred losses and allocated expenses										
End of policy year	8,363	8,461	8,250	9,411	9,423	8,583	7,563	6,764	6,442	4,493
One year later		9,014	7,849	7,943	9,213	10,227	7,731	6,672	6,672	4,165
Two years later			7,448	7,406	9,311	10,291	7,888	6,644	5,795	4,211
Three years later				8,094	9,209	10,801	8,474	6,792	5,872	4,481
Four years later					9,037	10,801	8,565	6,830	5,647	4,465
Five years later						10,643	9,238	7,050	5,826	4,566
Six years later							9,310	7,031	5,800	4,608
Seven years later								7,068	5,816	4,825
Eight years later									6,089	4,825
Nine years later										4,919
(8) Increase (decrease) in estimated net incurred losses and allocated expenses from end of policy year	$ -	$ 553	$ (802)	$ (1,317)	$ (386)	$ 2,060	$ 1,747	$ 304	$ (353)	$ 426

See accompanying notes to the financial statements.

VLCT Property and Casualty Intermunicipal Fund, Inc.

Reconciliation of Claim Liabilities by Type of Contract

December 31, 2010

	Workers' Compensation		Property and Casualty Lines		Total	
	2010	2009	2010	2009	2010	2009
Reserve for losses and LAE at beginning of year, net of reinsurance	$ 9,990,289	$ 10,498,951	$ 5,688,484	$ 4,739,559	$ 15,678,773	$ 15,238,510
Losses and LAE incurred relating to:						
Current year	2,510,168	2,752,395	5,853,278	5,708,244	8,363,446	8,460,639
Prior years	533,069	67,718	261,087	589,294	794,156	657,012
Total losses and LAE incurred	3,043,237	2,820,113	6,114,365	6,297,538	9,157,602	9,117,651
Losses and LAE paid relating to:						
Current year	967,097	955,944	2,163,573	1,690,052	3,130,670	2,645,996
Prior years	1,845,741	2,372,831	3,539,260	3,658,561	5,385,001	6,031,392
Total losses as LAE paid	2,812,838	3,328,775	5,702,833	5,348,613	8,515,671	8,677,388
Reserve for losses and LAE at end of year, net of reinsurance	$ 10,220,688	$ 9,990,289	$ 6,100,016	$ 5,688,484	$ 16,320,704	$ 15,678,773

See accompanying notes to the financial statements.

VLCT Property and Casualty Intermunicipal Fund, Inc.

Combining Statement of Net Assets

December 31, 2010

	Surplus Reserve Fund	2011 Fund Year	2010 Fund Year	1992 - 2009 Fund Year	Total
Assets					
Fixed-maturity securities, at fair value	$ 19,036,574	$ -	$ 3,102,354	$ 7,754,847	$ 29,893,775
Mutual funds, at fair value	-	-	-	5,141,743	5,141,743
Investment in NLC Mutual Insurance Company	1,939,063	-	-	-	1,939,063
Total Investments	20,975,637	-	3,102,354	12,896,590	36,974,581
Cash and cash equivalents	(7,075,500)	2,959,431	5,195,145	3,061,489	4,140,565
Accrued investment income	170,630	-	28,306	124,817	323,753
Contributions Receivable	-	-	185,553	299,064	484,617
Accounts receivable - deductibles and subrogation	-	-	57,403	531,035	588,438
Prepaid expenses	-	465,263	-	23,513	488,776
Reinsurance recoverable - paid losses	-	-	-	215,936	215,936
Other assets	499,859	-	183,315	-	683,174
Total Assets	$ 14,570,626	$ 3,424,694	$ 8,752,076	$ 17,152,444	$ 43,899,840
Liabilities					
Losses and loss adjustment expenses, net of reinsurance	$ -	$ -	$ 4,864,734	$ 10,518,940	$ 15,383,674
Accounts payable	-	-	135,215	16,806	152,021
Contributions collected in advance	-	3,303,968	-	59,259	3,363,227
Claims expense and workers' compensation state assessment reserve	-	-	368,042	568,988	937,030
Total Liabilities	-	3,303,968	5,367,991	11,163,993	19,835,952
Net Assets					
Board designated	-	-	285,465	1,617,259	1,902,724
Unrestricted	14,459,886	(1,033)	3,394,202	4,308,109	22,161,164
Total Net Assets	14,459,886	(1,033)	3,679,667	5,925,368	24,063,888
Total Liabilities and Net Assets	$ 14,459,886	$ 3,302,935	$ 9,047,658	$ 17,089,361	$ 43,899,840

See accompanying notes to the financial statements.

VLCT Property and Casualty Intermunicipal Fund, Inc.

Combining Statement of Contributions, Expenses and Change in Net Assets

December 31, 2010

	Surplus Reserve Fund	2011 Fund Year	2010 Fund Year	1992 - 2009 Fund Year	Total
Operating Revenues					
PC contributions	$ -	$ -	$10,596,071	$ (32,456)	$10,563,615
WC contributions	-	(3,233)	7,585,056	(67,927)	7,513,896
Other income	-	2,200	37,088	2,578	41,866
Total operating (expenses) revenues	-	(1,033)	18,218,215	(97,805)	18,119,377
Operating expenses					
Losses and loss adjustment expenses, net of reinsurance	-	-	8,363,446	794,156	9,157,602
General and administrative expenses	15,129	-	3,414,614	6,147	3,435,890
Reinsurance expenses	-	-	2,870,592	(33,151)	2,837,441
Broker fees for reinsurance	-	-	116,889	30,000	146,889
Total operating expenses	15,129	-	14,765,541	797,152	15,577,822
Operating (loss) income	(15,129)	(1,033)	3,452,674	(894,957)	2,541,555
Non-operating revenues (expenses)					
Investment income - interest and dividends	741,322	-	108,728	470,997	1,321,047
Investment income - net change in fair value	978,709	-	5,516	121,823	1,106,048
Net realized gains	262,107	-	112,749	40,487	415,343
Investment income - NLC Insurance Company	92,336	-	-	-	92,336
Investment management fees	(110,742)	-	-	-	(110,742)
Net non-operating revenues	1,963,732	-	226,993	633,307	2,824,032
Member contributions - contribution credit	-	-	-	750,000	750,000
Non-operating income (loss)	1,963,732	-	226,993	(116,693)	2,074,032
Change in net assets	1,948,603	(1,033)	3,679,667	(1,011,650)	4,615,587
Net assets, beginning of year	12,511,283	-	-	6,937,018	19,448,301
Net assets, end of year	$ 14,459,886	$ (1,033)	$ 3,679,667	$ 5,925,368	$24,063,888

See accompanying notes to the financial statements.

VLCT Property and Casualty Intermunicipal Fund, Inc.

Schedule of General and Administrative Expenses

December 31, 2010 and 2009

	2010	2009
VLCT Administration	$ 2,429,574	$ 2,477,005
Data System	185,279	138,227
Consulting Services	18,148	130,111
Actuarial Services	32,452	58,019
Legal Services	2,744	4,246
Accounting	49,593	36,459
Banking Costs	22,411	18,233
Investment Consulting Fees	2,995	37,076
Insurance	32,428	28,278
Board of Trustees	25,137	28,198
Staff Training	27,376	30,587
Trustee Training	-	474
Vehicles	67,149	67,120
Printing	11,468	2,472
Member Training	223,152	230,540
Drug and Alcohol	55,081	64,444
Wellness	146,256	124,921
Promotions	94,673	4,871
Dues and Subscriptions	9,484	15,815
Town Fair	438	-
Miscellaneous	52	5,063
Total	$ 3,435,890	$ 3,502,159

See accompanying notes to the financial statements.