

VLCT Unemployment Insurance Trust, Inc.

Audited Financial Statements
with Supplementary Information

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

VLCT Unemployment Insurance Trust, Inc.

Audited Financial Statements
with Supplementary Information

Years ended December 31, 2010 and 2009

Contents

Report of Independent Auditors.....	2
Management's Discussion and Analysis.....	3 - 11
 <u>Audited Financial Statements</u>	
Statements of Net Assets	12
Statements Revenues, Expenses, and Changes in Net Assets	13
Statements of Cash Flows	14
Notes to the Financial Statements.....	15 - 22
 <u>Supplementary Schedule</u>	
Supplementary Schedule of Revenues and Expenses - Budget to Actual	23

Report of Independent Auditors

The Board of Directors
VLCT Unemployment Insurance Trust, Inc.

We have audited the accompanying statements of net assets of VLCT Unemployment Insurance Trust, Inc. ("the Trust") as of December 31, 2010 and 2009 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 the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes the 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 Trust'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 provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trust as of 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 - 11 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 Trust's basis financial statements as a whole. The supplementary information on page 23, the Schedule of Revenues and Expenses - Budgetary Basis, 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 28, 2011

Vermont firm registration: 092-0000267

VLCT Unemployment Insurance Trust, Inc.

Management's Discussion and Analysis

Years ended December 31, 2010 and 2009

The management of VLCT Unemployment Insurance Trust, Inc. ("the Trust") 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

- High unemployment levels have impacted many state unemployment systems around the country. Many state-run unemployment funds, including Vermont's, have become insolvent due to high claims and have had to borrow money from the federal government to meet their benefit payment obligations. Fortunately, the self-insured Trust has built a prudent surplus over the years to be prepared for difficult economic times, such as we are now facing. Some of that surplus has been used to offset the operating loss generated during 2009 and 2010.
- An underwriting loss was mitigated by positive investment gains yielding an increase in net assets.
- Assets exceeded liabilities in 2010 by \$1,032,757. In 2009, assets exceeded liabilities by \$939,507. The Trust's Board of Directors ("the Board") designated all of the 2009 net assets, and additional assets of \$72,290 (total designation of \$1,011,797) for claim reserves. Beginning with the 2010 year, the Board decided to eliminate the designation of net assets between designated and undesignated, leaving all net assets undesignated.
- No rate credits were given in 2010 as a net loss was projected during the budgeting process. As approved in 2008, a \$25,000 rate credit was designated to reduce 2009 rates.
- Net assets in 2010 increased by \$93,250 or 10% from 2009. This compares to a decrease of \$141,100 or 13% experienced last year. The increase in 2010 was primarily the result of a decrease in claim payments (\$751,596 in 2010 vs. \$825,444 in 2009, a 8.9% decrease), along with an increase in contributions (\$848,552 in 2010 vs. \$632,440 in 2009). In reviewing the actuary's recommendations from the September 2010 rate study and taking into consideration 2009 and 2010 claim experience, the Board agreed that there would be no rate credit distributions to members in 2011. The ratio of net assets to total assets increased by 3.7%, from 70.3% in 2009 to 74% in 2010.

VLCT Unemployment Insurance Trust, Inc.

Management's Discussion and Analysis (Continued)

Overview of the Trust's Financial Statements

The Trust's fiscal year is January 1 through December 31. All activities of the Trust are accounted for as enterprise fund. The Trust's operations primarily include determination and collection of appropriate member contributions, issuing claim benefit payments and paying administrative costs of operating the Trust. Administrative costs include direct costs from operating the Trust, as well as indirect or fixed costs that are incurred by Vermont League of Cities and Towns ("VLCT") and allocated to all three VLCT sponsored insurance trusts. Claims payments are made to claimants by the State of Vermont Department of Labor, with TALX Corporation contracted to administer and report claims. The Trust reimburses the State of Vermont for these payments on a quarterly basis.

The annual financial report consists of three parts:

- Management's Discussion and Analysis
- Financial Statements and Disclosures
- Supplementary Schedule of Revenues and Expenses - Budget to Actual

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:

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

These statements present the Trust's status at December 31, 2010 and financial developments during 2010 for all activities. Comparative data for the prior year is included in the exhibits and notes to the financial statements.

The statements of net assets presents the economic position of the Trust as of December 31, 2010 and 2009, showing the assets owned by the Trust and how those assets are financed: by debt or short-term obligations, and by net assets (the Trust's equity), more commonly known as the "fund balance" prior to the implementation of GASB 34 reporting requirements, or "surplus" as it is referred to in the insurance industry.

VLCT Unemployment Insurance Trust, Inc.

Management's Discussion and Analysis (Continued)

Overview of the Trust's Financial Statements- Continued

The statements of revenue, expenses and changes in net assets shows the operating transactions for the year, revenue and expenses. 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 statements of net assets as well as the statements of revenue, expenses and changes in net assets.

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

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 supplementary schedule of revenues and expenses-budgetary basis for the year ended December 31, 2010 is presented for the purposes of additional analysis and is 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. "Surplus" is used in the insurance industry 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 statements of net assets:

	<u>December 31,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>	<u>Percentage</u> <u>Change</u>	<u>December 31,</u> <u>2008</u>	<u>Percentage</u> <u>Change</u>
Assets					
Cash and Investments	\$ 1,364,636	\$ 1,322,591	3.18 %	\$ 1,358,250	(2.63)%
Other assets	<u>24,765</u>	<u>13,040</u>	89.92 %	<u>12,879</u>	1.25 %
Total assets	1,389,401	1,335,631	4.03 %	1,371,129	(2.59)%
Liabilities					
Total liabilities	<u>356,644</u>	<u>396,124</u>	(9.97)%	<u>290,522</u>	36.35 %
	<u>356,644</u>	<u>396,124</u>	(9.97)%	<u>290,522</u>	36.35 %
Net Assets					
Unrestricted	<u>1,032,757</u>	<u>939,507</u>	9.93 %	<u>1,080,607</u>	(13.06)%
Total net assets	<u>\$ 1,032,757</u>	<u>\$ 939,507</u>	9.93 %	<u>\$ 1,080,607</u>	(13.06)%

VLCT Unemployment Insurance Trust, Inc.

Management's Discussion and Analysis (Continued)

Results and Analysis - Continued

As of December 31, 2010, total assets increased by 4% from \$1,335,631 to \$1,389,401. This was due to an increase in contributions over paid claims in 2010 as well as increase in amounts due from VLCT for the 2010 VLCT FTE adjustment. In 2010, the FTE allocation at year-end was less than what was projected, therefore, a receivable of \$13,950 is due from VLCT. The liabilities balance decreased by 9.9% from \$396,124 to \$356,644. This was due primarily to a decrease in unemployment claims for the fourth quarter of \$42,155 which is included in amounts due to Vermont Department of Labor, which was offset by an increase in unearned income. As of December 31, 2010, more members paid their 2011 contributions in advance than in 2009. As of December 31, 2009, total assets decreased by 2.6% from \$1,371,129 to \$1,335,631. This was due to an increase in claim payments throughout 2009. Liabilities increased by 36.4% from \$290,522 to \$396,124. This was primarily due to an increase of \$39,637 in member contributions for 2010 paid in 2009, as well as a significant increase in unemployment claims for the fourth quarter, of which \$60,880 represents an increase in amounts due to Vermont Department of Labor.

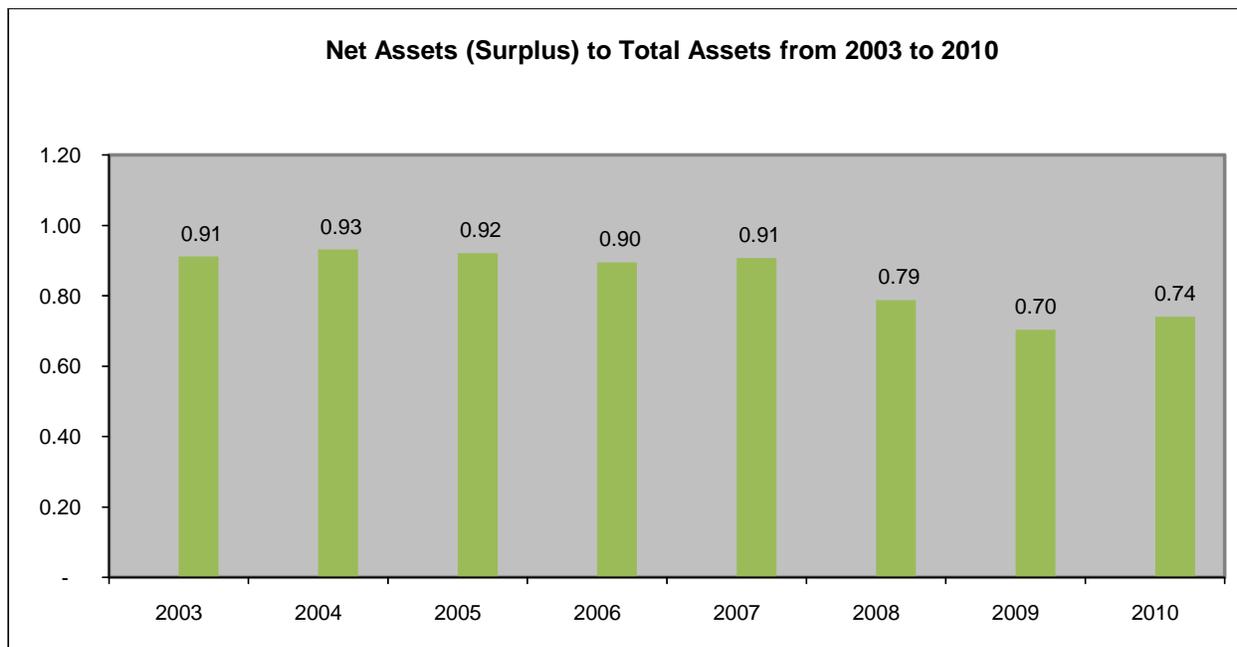
Net assets increased in 2010 by 10% or \$93,250. The Trust had an operating loss of \$7,812 for 2010. This operating loss was offset by net investment earnings for 2010 of \$35,917, and by a net increase in the fair value of investments (net realized and net unrealized) of \$65,145. This, coupled with an increase in unearned income for 2010, results in a ratio of net assets (surplus) to total assets of 74.3% in 2010 as compared with 70.3% in 2009 and 78.8% in 2008. Net assets decreased in 2009 due to an operating loss of \$309,467, which was offset by net investment income of \$44,561 and net realized and net unrealized gains of \$123,806. Net assets decreased in 2008 due to net realized and unrealized losses on investments of \$150,461, which were offset slightly by net investment income of \$41,721 and an operating surplus of \$61,745.

As can be seen in the following chart, net assets or surplus as a ratio to total assets (a measurement of the Trust's surplus against the value of its total assets) has remained in the low to mid-90's except for the most recent three years. The higher the ratio, the better the Trust's financial position, providing more of a cushion against unexpected losses, poor investment returns, or operating deficits. In other words, currently 74.3% of all of the Trust's assets are available to cover any of these potential problems. Because the Trust is fully self-insured and has no reinsurance to fall back on, this net asset fund amount for surplus reserves is important for financial stability.

VLCT Unemployment Insurance Trust, Inc.

Management's Discussion and Analysis (Continued)

Results and Analysis - Continued



The following table summarizes the statements of revenues, expenses and changes in net assets:

	December 31, 2010	December 31, 2009	Percentage Change	December 31, 2008	Percentage Change
Operating Revenues					
Fund Contributions	\$ 848,552	\$ 632,440	34.17 %	\$ 651,572	(2.94)%
Other revenues	<u>52,000</u>	<u>51,750</u>	0.48 %	<u>31,200</u>	65.87 %
Total operating revenues	900,552	684,190	31.62 %	682,772	0.21 %
Operating Expenses					
Claims benefit payments	751,596	825,444	(8.95)%	484,093	70.51 %
Operating expenses	<u>156,768</u>	<u>168,213</u>	(6.80)%	<u>136,934</u>	22.84 %
Total operating expenses	<u>908,364</u>	<u>993,657</u>	(8.58)%	<u>621,027</u>	60.00 %
Operating (loss) income	<u>(7,812)</u>	<u>(309,467)</u>	(97.48)%	<u>61,745</u>	(601.20)%
Non-Operating Revenues (Expenses)					
Investment income (loss) net of fees	<u>101,062</u>	<u>168,367</u>	(39.98)%	<u>(108,740)</u>	(254.83)%
Change in net assets	93,250	(141,100)	(166.09)%	(46,995)	200.24 %
Net Assets, Beginning of Year	<u>939,507</u>	<u>1,080,607</u>	(13.06)%	<u>1,127,602</u>	(4.17)%
Net Assets, End of Year	<u>\$ 1,032,757</u>	<u>\$ 939,507</u>	9.93 %	<u>\$ 1,080,607</u>	(13.06)%

VLCT Unemployment Insurance Trust, Inc.

Management's Discussion and Analysis (Continued)

Results and Analysis - Continued

In 2010, an operating loss (net revenue over expenses before net investment income or loss) of \$7,812 was offset by net investment income of \$101,062 (including \$13,924 of net realized market gains and \$51,221 of net unrealized market gains attributable to the change in fair value of investments) resulting in an increase in net assets of \$93,250. In comparison, in 2009, an operating loss of \$309,467 was offset by a net investment gain of \$168,367 (including \$22,933 of net realized market gains and \$100,873 of net unrealized market gains attributable to the change in fair value of investments) resulting in a net assets decrease of \$141,100. In 2008 an operating surplus of \$61,745 was offset by investment losses of \$108,740 net of fees (including \$31,380 in realized market gains and \$181,841 in unrealized market losses attributable to the change in fair value of investments) resulting in a net assets decrease of \$46,995.

An operating loss was budgeted for 2010 due to an expected high level of claims benefit payments and due to the fact that interest earnings were used to offset costs in the rate calculation for 2010. Claims payments in 2010 decreased by \$73,848 as related to 2009 and were \$404 less than budgeted. Contributions increased significantly during 2010 in line with the actuary's rate recommendations. The additional contributions were required to allow for the projected higher level of claim payments. The operating loss in 2009 was a result of higher than expected claims benefit payments (\$341,351 higher than in 2008 and \$277,039 more than budgeted). Contributions decreased in 2009 as compared to 2008 by \$19,132. Part of this decrease was due to a distribution of surplus to members in 2009 of \$25,000.

Administrative expenses for the year decreased from 2009 by \$11,445 or 6.8%, primarily due to a decrease in the cost for VLCT services due to a decrease in the FTE allocation. The decrease in FTE allocation for 2010 is primarily the result of the Director of Risk Management Services retiring, the Deputy Director being promoted and the Deputy Director position not being filled. Administrative expenses in 2009 increased from 2008 by \$31,279 or 22.8%, primarily due to an increase in the cost for VLCT services due to the FTE allocation. Costs also increased for claims services due to increased fees and additional legal fees for claims hearings. Administrative expenses in 2008 increased from 2007 by \$7,363 or 5.7%, primarily due to increased expenses for contracted services (actuarial, auditing and accounting, and legal services) although this was partially offset by a small decrease in the cost for VLCT services.

Claims benefit payments decreased over the prior year by \$73,848 or 8.9%. An analysis of the quarterly changes shows a significant increase in payments for the first quarter over the prior year (31%), a decrease for the second quarter (12%), a decrease for the third quarter (45%) and a decrease for the fourth quarter (19%). It appears that the claims payments hit their peak in the first quarter of 2010. In comparison, claims benefit payments increased in 2009 from 2008 by \$341,351 or 70.5%. An analysis of the quarterly changes shows a significant increase in payments for the first quarter over the prior year (47.24%), and a significantly higher increase for the second quarter (108.07%) and third quarter (143.92%). Payments for the fourth quarter

VLCT Unemployment Insurance Trust, Inc.

Management's Discussion and Analysis (Continued)

Results and Analysis - Continued

were greater than the prior year (37.38%). Claims benefit payments decreased in 2008 from 2007 only \$2,363 or 0.5%.

Investment income decreased by \$66,305 or 40%, largely due to the fluctuations in market conditions from December 31, 2009 to December 31, 2010. The Trust reported a net change in the unrealized gain during 2010 of \$51,221, as compared to a net change in the unrealized gain of \$100,873 in 2009 and a net unrealized loss of \$181,841 in 2008. The asset allocation at the end of 2010 is comprised of 29% equities, 67.3% fixed income, and 3.7% cash and equivalents. This compares with 24.8% equities, 67.4% fixed income, and 7.8% cash and equivalents at the end of 2009, and with 20.9% equities, 71.7% fixed income, and 7.4% cash and equivalents at the end of 2008. Weighted returns at year end 2010 were 7.06% for the fixed income portfolio (compared with the Barclays Capital Aggregate market index of 6.56%, while the equity portfolio showed weighted returns of 16.36% (compared with the S&P 500 market index of 15.06% and Russell 3000 market index of 16.93%).

The following table summarizes budgeted revenues and expenses versus actual results, showing the variance from budgeted for the year ended December 31, 2010:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating Revenues			
Fund contributions	\$ 848,141	\$ 848,552	\$ 411
Other revenues	<u>51,750</u>	<u>52,000</u>	<u>250</u>
Total operating revenues	899,891	900,552	661
Operating Expenses			
Claims benefit payments	752,000	751,596	404
Operating expenses - all cost centers	<u>170,376</u>	<u>156,768</u>	<u>13,608</u>
Total operating expenses	<u>922,376</u>	<u>908,364</u>	<u>14,012</u>
Operating excess (deficiency) of revenues over expenditures	(22,485)	(7,812)	14,673
Non-operating - investment income (loss)	<u>(4,300)</u>	<u>101,062</u>	<u>105,362</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (26,785)</u>	<u>\$ 93,250</u>	<u>\$ 120,035</u>

As shown in this budget analysis, the operating loss of \$7,812 was less than the operating loss of \$22,485 that was anticipated when the 2010 budget was constructed. The variance in actual operating loss to budget is attributable to claim benefit payments being only \$404 less than budgeted and operating expenses below the budgeted amount by \$13,608. The Trust had budgeted an overall loss of \$26,785, with the budget excluding any estimate for investment income (the budgeted investment loss shown above relates to investment management and

VLCT Unemployment Insurance Trust, Inc.

Management's Discussion and Analysis (Continued)

Results and Analysis - Continued

consulting fees only). Actual investment results produced net investment income of \$101,062. As a result, the investment results are the primary reason the Trust produced an excess of revenues over expenditures, relative to the budgeted loss, as more fully described below. The net result was a favorable variance from the budget of \$120,035, which increased net assets by \$93,250.

To determine member contributions or premiums, the Trust uses a retrospective rate-setting approach, budgeting for the worst case and paying back to members the difference between the actual and budgeted amounts, along with any investment income earned on the surplus funds. Unfortunately, both 2008 and 2009 established new worst cases and the first quarter of 2010 followed this trend. Both the budget for the ensuing year and distributions from prior year claims activity are based on an actuarial rate study completed annually. No distributions were made to members from 2010 or 2009 results. A \$25,000 distribution of surplus was made to members from 2008 results.

Administrative operating expenses were lower than budgeted in 2010. VLCT services were less than budgeted and resulted in an adjustment of \$13,950 recorded in 2010 to reflect the reduction in actual FTE allocations.

Claims benefit payments were budgeted based on trend data from 2003 to 2009, which had shown a regular increase over those years that was expected to continue, as well as the use of a selected benefit provision that was higher than the actuarially calculated maximum benefit ratio. Actual benefit payments for every quarter in 2009 were significantly higher than in the prior year, but this leveled off after the first quarter in 2010, as discussed earlier.

In 2010, we did not budget for investment income due to the volatility of the securities market; therefore, significant differences between budgeted and actual results arise from interest and dividend income and market value gains or losses. Market conditions in 2010 resulted in a net increase in the unrealized gains in market value, but not as significant as the net increase in unrealized gains seen in 2009.

Outlook and Economic Factors

It appears that, in Vermont, the worst of the unemployment crisis has passed. Recent unemployment rates in Vermont have fallen below 6%. The Trust has seen its claims stabilize and drop year over year. This change began in the second quarter of 2010.

Because rates for 2011 were set based on claims through the last half of 2009 and the first half 2010, they were based on what may have been the worst four quarters of claims in our history. Rates for 2011 went up by an average of 2.8% on a projected payroll of \$46.6 million. When

VLCT Unemployment Insurance Trust, Inc.

Management's Discussion and Analysis (Continued)

Outlook and Economic Factors - Continued

taking into account the increase in the base wage from \$10,000 to \$13,000, the effective increase was 27%.

For comparison, the average rate and projected payroll for the current and previous three years was:

Year	Average Rate	Projected Payroll
2011	2.18%	\$46.6 million
2010	2.15%	\$39.6 million
2009	2.03%	\$32.5 million
2008	2.02%	\$32.0 million

The 2011 actuarial study projected a net loss for the Trust and recommended no contribution rate credit. The Board concurred with this recommendation.

In contrast to the Trust, the State of Vermont Unemployment Trust fund ("the state fund") ran out of money and had to borrow from the federal government. As a result, the legislature made a variety of changes to the unemployment system in 2010 to bring the state fund back to financial health over the next few years. While the Trust is reimbursable and does not rely on state funding, some of the changes will impact our costs. The base wage, against which rates are applied, will be increased to \$16,000 effective January 1, 2012. This change should not impact our costs because our rates are based on upon expected claims. Changes were made to benefit levels and calculation, which will likely positively impact our claims experience, though only to a limited extent. At this time, further substantial changes to the unemployment system are not expected.

Given that claims have stabilized and are dropping from their 2009-2010 highs, our rates should be adequate to cover claims in 2011. This should allow the Trust to begin rebuilding its surplus. This will leave the Trust in a strong position to meet its obligations going forward.

Requests for Information

This financial report is designed to provide a general overview of the VLCT Unemployment Insurance Trust, Inc.'s finances for all those with an interest in the Trust's finances. Questions concerning any of the information provided in this report or requests for financial information should be addressed to the Chief Financial and Administrative Officer at the Vermont League of Cities and Towns, 89 Main Street, Suite 4, Montpelier, Vermont, 05602-2948, or by calling 802-229-9111.

VLCT Unemployment Insurance Trust, Inc.

Statements of Net Assets

	As of December 31,	
	<u>2010</u>	<u>2009</u>
Assets		
Cash and cash equivalents	\$ 281,035	\$ 270,147
Investments, at fair value	757,751	769,252
Mutual funds, at fair value	325,850	283,192
Accrued investment income	9,264	9,919
Prepaid expenses	1,551	3,121
Due from VLCT	<u>13,950</u>	<u>-</u>
 Total Assets	 <u>\$ 1,389,401</u>	 <u>\$ 1,335,631</u>
 Liabilities and Net Assets		
Liabilities		
Due to Vermont Department of Labor	\$ 175,913	\$ 218,068
Unearned income	180,013	168,325
Accounts payable	<u>718</u>	<u>9,731</u>
Total liabilities	356,644	396,124
 Net Assets		
Unrestricted	<u>1,032,757</u>	<u>939,507</u>
 Total Liabilities and Net Assets	 <u>\$ 1,389,401</u>	 <u>\$ 1,335,631</u>

See accompanying notes to the financial statements.

VLCT Unemployment Insurance Trust, Inc.

Statements of Revenues, Expenses, and Changes in Net Assets

	Years ended December 31,	
	2010	2009
Operating Revenues		
Member contributions	\$ 848,552	\$ 632,440
Management fees	52,000	51,750
Total operating revenues	900,552	684,190
Operating Expenses		
Claims benefit payments	751,596	825,444
General and administrative expenses	156,768	168,213
Total operating expenses	908,364	993,657
Operating loss	(7,812)	(309,467)
Non-Operating Revenues (Expenses)		
Investment income	39,360	48,766
Investment income - net change in fair value	65,145	123,806
Investment management fees	(2,040)	(2,562)
Investment consulting fees	(1,403)	(1,643)
Net non-operating revenues	101,062	168,367
Change in net assets	93,250	(141,100)
Net Assets, Beginning of Year	939,507	1,080,607
Net Assets, End of Year	\$ 1,032,757	\$ 939,507

See accompanying notes to the financial statements.

VLCT Unemployment Insurance Trust, Inc.

Statements of Cash Flows

	Years ended December 31,	
	<u>2010</u>	<u>2009</u>
Cash Flows from Operating Activities		
Receipts for member contributions	\$ 860,240	\$ 672,077
Receipts for management fees	52,000	51,750
Payments for claims	(793,751)	(764,564)
Payments for general and administrative expenses	<u>(178,161)</u>	<u>(163,547)</u>
Net cash used in operating activities	(59,672)	(204,284)
Cash Flows from Investing Activities		
Receipts of interest income	40,015	49,024
Investment management fees	(2,040)	(2,562)
Investment consulting fees	(1,403)	(1,643)
Purchases of investments	(544,062)	(1,293,888)
Proceeds of investments	<u>578,050</u>	<u>1,409,657</u>
Net cash provided by investing activities	70,560	160,588
Net change in cash and cash equivalents	10,888	(43,696)
Cash and Cash Equivalents, Beginning of Year	<u>270,147</u>	<u>313,843</u>
Cash and Cash Equivalents, End of Year	<u>\$ 281,035</u>	<u>\$ 270,147</u>
Reconciliation of Operating Income to Net Cash Used In Operating Activities		
Operating loss	\$ (7,812)	\$ (309,467)
Changes in assets and liabilities:		
Prepaid expenses	1,570	(419)
Due from VLCT	(13,950)	-
Due to Vermont Department of Labor	(42,155)	60,880
Unearned income	11,688	39,637
Accounts payable	<u>(9,013)</u>	<u>5,085</u>
Net Cash Used In Operating Activities	<u>\$ (59,672)</u>	<u>\$ (204,284)</u>

See accompanying notes to the financial statements.

VLCT Unemployment Insurance Trust, Inc.

Notes to the Financial Statements

Years ended December 31, 2010 and 2009

Note A - Organization and Nature of Operations

Organization

VLCT Unemployment Insurance Trust, Inc. ("the Trust") was incorporated in 1978 to provide Vermont municipalities with a stable, cost effective means to maintain their unemployment costs at the lowest possible levels. Services performed by the Trust include (1) pay costs due to unemployment claims filed against the municipality; (2) a professional claims management system to review and monitor all data and reports upon filing for unemployment compensation; (3) legal and administrative representation at hearings and appeals before the Vermont Department of Labor up through the Vermont Supreme Court; (4) information on current legislation and representation before the Vermont legislature on all unemployment matters affecting Vermont municipalities; (5) effective cost-control programs on all aspects of the unemployment compensation law and how it affects cities and towns; and (6) an affiliation with the Vermont League of Cities and Towns ("VLCT"), an organization dedicated to the betterment of Vermont local government.

The Trust had 211 and 210 members as of December 31, 2010 and 2009, respectively.

Note B - Summary of Significant Accounting Policies

Basis of Accounting

The accounting policies of the Trust 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 Trust adheres to all GASB pronouncements. The Trust 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 Trust uses the economic resources measurement focus and the accrual basis of accounting and is accounted for as a proprietary enterprise fund.

The Trust'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 state of the economy and the associated unemployment levels; (2) fluctuations in interest rates affect the value and income yield of the Trust's investment portfolio in the short-term, and often affect default and prepayment rates over time. Should any of these or similar events occur, the Trust's operating results and financial condition may be affected.

VLCT Unemployment Insurance Trust, Inc.

Notes to Financial Statements (Continued)

Note B - Summary of Significant Accounting Policies (Continued)

Subsequent Events

The Trust has evaluated subsequent events for disclosure and recognition through March 28, 2011, the date on which these financial statements were available to be issued.

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.

The Trust engages an independent actuary to assess future claims and claims handling expenses of its members. As more fully described in Note E, the Trust does not record a liability for future claims and claims handling expenses due to the nature of the contracted relationship between the Trust and its members, and the claims paid nature of the Participation and Indemnification Agreement ("the Agreement") signed by each member upon joining the Trust. The Trust is only responsible for the claims of its current members, as outlined by the Agreement.

Due to Vermont Department of Labor

The Vermont Department of Labor pays claims benefits when incurred and is reimbursed by the Trust on a quarterly basis. Claims benefits payable for claims incurred in the last quarter of December 31, 2010 and 2009 are classified as Due to the Vermont Department of Labor on the statement of net assets.

Investments

The Trust 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 statement of revenues, 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.

VLCT Unemployment Insurance Trust, Inc.

Notes to Financial Statements (Continued)

Note B - Summary of Significant Accounting Policies (Continued)

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 C.

Cash and Cash Equivalents

The Trust'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 Trust, except mutual funds and cash equivalents in the investment account held by the People's United Bank, as these are included within investments.

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

	<u>December 31, 2010</u>		<u>December 31, 2009</u>	
	<u>Book</u>	<u>Bank</u>	<u>Book</u>	<u>Bank</u>
	<u>Balance</u>	<u>Balance</u>	<u>Balance</u>	<u>Balance</u>
Insured/FDIC	\$ 281,035	\$ 248,728	\$ 270,121	\$ 270,121
Petty Cash	<u>-</u>	<u>-</u>	<u>26</u>	<u>-</u>
Total	<u>\$ 281,035</u>	<u>\$ 248,728</u>	<u>\$ 270,147</u>	<u>\$ 270,121</u>

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 Depository Insurance Corporation ("FDIC") insures amounts on deposit up to the limits as prescribed by the law. The Trust may hold funds with financial institutions in excess of the FDIC insured amount, however, the Trust 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 Trust's deposits with People's United Bank became fully collateralized.

Prepaid Expenses

Payments for E&O and professional liability insurance and subscriptions relating to the unexpired portion of the insurance agreements are recorded as prepaid expenses.

Member Contributions

The Trust bills member contributions based on the members' reported taxable payroll from prior periods limited to \$10,000 (\$8,000 in 2009) per employee multiplied by a rate established by the Board of Directors ("the Board"). Underwriting and rate-setting methods and policies are established after consultation with an independent actuary.

VLCT Unemployment Insurance Trust, Inc.

Notes to Financial Statements (Continued)

Note B - Summary of Significant Accounting Policies (Continued)

Unearned Income

Unearned income represents the amounts billed and collected at December 31, 2010 and 2009 for member contributions with coverage effective dates of January 1, 2011 and January 1, 2010, respectively.

Income Taxes

The Trust is incorporated as a nonprofit corporation under the Vermont Nonprofit Corporation Act. The Trust'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.

Classification of Revenues and Expenses

The Trust 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 Trust's enterprise fund include fund contributions (premiums) and fees received from providing services. Operating expenses include claims paid 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.

Note C - Investments

The Trust's investment policy, as approved by the Board, contains certain provisions and limitations intended to mitigate the Trust'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 Trust's investment policy is structured with limitations and guidelines intended to mitigate the components of credit risk as summarized in the following three bullet points.

VLCT Unemployment Insurance Trust, Inc.

Notes to Financial Statements (Continued)

Note C - Investments (Continued)

- *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. Obligations, which have no limit) to 5%. There are no single investments that exceed the limit as of December 31, 2010 and 2009.
- *Custodial credit risk* - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Trust will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Neither the Vermont Statutes nor the Trust'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 Trust against losses caused by negligence or dishonesty.
- *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 following tables provide a summary of the fair value of the Trust's investment portfolio by contractual maturity. The expected maturities in the following tables may differ from the contractual maturities because certain borrowers may have the right to call or prepay obligations with or without penalty.

	<u>December 31, 2010</u>				
	<u>Due in one year or less</u>	<u>Due after one year through five years</u>	<u>Due after five years through ten years</u>	<u>Due after ten years</u>	<u>Total</u>
U.S. Treasuries	\$ 43,129	\$ -	\$ 13,213	\$ 9,705	\$ 66,047
U.S. Agencies	-	-	76,094	-	76,094
U.S. Agency MBS	-	30,901	-	-	30,901
Corporate Bonds	76,107	137,884	135,641	206,844	556,476
Municipal Bonds	-	-	-	28,233	28,233
Total	<u>\$ 119,236</u>	<u>\$ 168,785</u>	<u>\$ 224,948</u>	<u>\$ 244,782</u>	<u>\$ 757,751</u>

VLCT Unemployment Insurance Trust, Inc.

Notes to Financial Statements (Continued)

Note C - Investments (Continued)

The table below outlines the Standard and Poor's credit ratings of the Trust's investment holdings as of December 31, 2010:

	U.S. <u>Treasuries</u>	U.S. <u>Agencies</u>	U.S. <u>Agency MBS</u>	Corporate <u>Bonds</u>	Municipal <u>Bonds</u>	<u>Total</u>
AAA	\$ 66,047	\$ 76,094	\$ 30,901	\$ 106,983	\$ 8,993	\$ 289,018
AA	-	-	-	13,057	10,063	23,120
A	-	-	-	125,223	4,507	129,730
AA+	-	-	-	25,327	-	25,327
A+	-	-	-	48,028	-	48,028
AA-	-	-	-	37,156	4,670	41,826
A-	-	-	-	50,608	-	50,608
BBB	-	-	-	38,406	-	38,406
BBB+	-	-	-	60,941	-	60,941
Not Rated	-	-	-	50,747	-	50,747
Total	<u>\$ 66,047</u>	<u>\$ 76,094</u>	<u>\$ 30,901</u>	<u>\$ 556,476</u>	<u>\$ 28,233</u>	<u>\$ 757,751</u>

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 investments held by the Trust as of December 31, 2010:

	<u>Fair Value</u>	<u>Effective Duration</u>
U.S. Treasuries	\$ 66,047	2.78
U.S. Agencies	76,094	5.85
U.S. Agency MBS	30,901	2.16
Corporate Bonds	556,476	5.82
Municipal Bonds	<u>28,233</u>	11.81
Total	<u>\$ 757,751</u>	5.47

The average effective duration of the investment portfolio as of December 31, 2010 and 2009, was 5.47 and 5.25 years, respectively.

VLCT Unemployment Insurance Trust, Inc.

Notes to Financial Statements (Continued)

Note C - Investments (Continued)

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

<u>Classification</u>	<u>2010 Fair Value</u>	<u>2009 Fair Value</u>
Large Cap Blend	\$ 57,916	\$ 52,483
Large Cap Growth	49,730	46,249
Large Cap Value	55,788	49,364
Mid Cap Growth	52,402	42,518
Mid Cap Value	53,823	45,710
Small Cap Blend	<u>56,191</u>	<u>46,868</u>
Total	<u>\$ 325,850</u>	<u>\$ 283,192</u>

Net realized gains on the sale of investments were \$13,924 and net unrealized gains attributable to the change in fair value of investments were \$51,221 for the year ended December 31, 2010. Net realized gains on the sale of investments were \$22,933 and net unrealized losses attributable to the change in fair value of investments were \$100,873 for the year ended December 31, 2009.

Note D - Administrative Services Provided by VLCT

The accompanying financial statements represent the general operations of the Trust 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 Trust. The following VLCT expenses are attributable to the Trust.

- 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

VLCT Unemployment Insurance Trust, Inc.

Notes to Financial Statements (Continued)

Note D - Administrative Services Provided by VLCT (Continued)

For the years ended December 31, 2010 and 2009, expenses allocated to the Trust were \$84,125 and \$98,223 for administrative services and \$444 and \$1,150 was paid for auto usage reimbursement, respectively. These costs are included as a component of general and administrative expenses on the statement of revenues, expenses and changes in net assets.

Note E - Net Assets

As discussed in Note B, the Trust does not record a liability for future claims due to the claims paid nature of unemployment insurance and the Agreement with its members. Therefore beginning in 2010, the Board has decided to no longer declare a portion of net assets as designated net assets; all net assets are undesignated.

As of December 31, 2010, the Trust has established target net assets of \$1,193,943 based on an actuarial assessment of possible future claims and claim handling expenses. The net assets target is estimated to cover losses for two consecutive years of worst-case claims experience and possible poor investment returns. The net assets target will be adjusted each year to account for inflation, growth in exposures and estimated claims, and potential for new worst-case claims experience.

At December 31, 2009, the Board designated \$1,011,797 of net assets for possible future claims and claims handling expenses based on an actuarial assessment of possible future claims and claim handling expenses. This amount included reserves for administrative expenses the Trust estimated to incur in running off the claims.

The Trust budgets on a retrospective basis, giving back to members known surpluses in order to reduce future rates based on an actuarial assessment. The Trust elected not to return any surplus to members for the years ended December 31, 2010 and 2009.

VLCT Unemployment Insurance Trust, Inc.

Schedule of Revenues and Expenses - Budgetary Basis

December 31, 2010
(Unaudited)

	Budget	Actual	Variance Favorable / (Unfavorable)
Revenues			
Contributions	\$ 848,141	\$ 848,552	\$ 411
Management fees	51,750	52,000	250
Investment income - interest and dividends	-	39,360	39,360
Investment income - change in fair value	-	65,145	65,145
Total revenues	<u>899,891</u>	<u>1,005,057</u>	<u>105,166</u>
Administrative Expenses			
Claims benefit payments	752,000	751,596	404
VLCT services	87,042	74,626	12,416
Actuarial	6,000	5,228	772
Audit/Accounting	8,500	11,160	(2,660)
Claims services	35,000	34,135	865
Legal services	4,250	5,211	(961)
Consulting	1,000	-	1,000
Board of Directors	4,500	7,050	(2,550)
Insurance	4,500	3,196	1,304
Bank costs	1,700	1,813	(113)
Investment consulting fees	1,800	1,403	397
Investment management fees	2,500	2,040	460
Dues & subscriptions	1,250	1,230	20
Staff travel/training	1,550	1,739	(189)
Vehicle expenses	500	279	221
Miscellaneous	100	95	5
Member training	100	-	100
Promotionals	100	-	100
Communications	100	-	100
Printing	750	407	343
Town Fair	100	732	(632)
Total administrative expenses	<u>913,342</u>	<u>901,940</u>	<u>11,402</u>
Member Relations			
VLCT services	11,034	9,499	1,535
Legal services	100	-	100
Consulting	100	-	100
Dues & subscriptions	100	-	100
Staff travel/training	100	78	22
Vehicle expense	1,000	165	835
Miscellaneous	100	-	100
Member training	300	-	300
Promotionals	300	25	275
Communications	100	-	100
Printing	100	100	-
Total member relations	<u>13,334</u>	<u>9,867</u>	<u>3,467</u>
Total expenses	<u>926,676</u>	<u>911,807</u>	<u>14,869</u>
Excess (Deficiency) of Revenues over Expenses	<u>\$ (26,785)</u>	<u>\$ 93,250</u>	<u>\$ 120,035</u>

See accompanying notes to the financial statements.