Johnson Lambert & Co. LLP
CPAs and Consultants

VLCT Property and Casualty Intermunicipal Fund, Inc.

Audited Financial Statements
with Supplementary Information

Years ended December 31, 2011 and 2010
with Report of Independent Auditors

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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 position of VLCT Property and Casualty Intermunicipal Fund, Inc. ("the Fund") as of December 31, 2011 and 2010, and the related statements of contributions, expenses, and changes in net position 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, 2011 and 2010, 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 - 19 and the accompanying financial information listed on pages 40 - 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which 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 43 - 45 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 15, 2012

Vermont firm registration: 092-0000267

VLCT Property and Casualty Intermunicipal Fund, Inc.

Management's Discussion and Analysis

December 31, 2011 and 2010

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, 2011, 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 2011 by $26,771,878. Of this amount, $25,271,878 is unrestricted, and $1,500,000 has been restricted by the Board. The restricted amount represents $1,250,000 of premium credits to be applied to 2012 and $250,000 to be allocated to fund the member safety grant program in 2012. The board has also designated $1,045,499 for the safety margin by recommendation of the Fund's actuary in order to maintain a 90% confidence level in the adequacy of the non-case reserves (IBNR-incurred but not reported). The board designated amounts are included within unrestricted.

In 2010, assets exceeded liabilities by $24,063,888, of which $23,063,888 was undesignated as of the end of the year. In 2009, assets exceeded liabilities by $19,448,301, of which $18,656,301 was undesignated as of the end of the year. Restricted funds for 2010 and 2009 were $1,000,000 and $792,000, respectively. Restricted net position for 2010 of $1,000,000 consisted of $800,000 of premium credits to be applied to 2011 and $200,000 to be allocated to fund the member safety grant program in 2011. The restricted net position for 2009 of $792,000 represented premium credits to be applied to 2010. The Board also designated $902,724 and $749,031 of unrestricted net position for the safety margin allocation for 2010 and 2009, respectively.

- Unrestricted net position in 2011 increased by $2,207,990 (9.57%) from 2010. The ratio of unrestricted net position to total assets increased slightly to 52.6% in 2011 from 52.5% in 2010, due to an increase in assets of $4,112,103 or 9.37% offset with a 7.08% increase in liabilities and reserves. By comparison, 2010 reflected an increase in assets ($5,456,488 or 14.19%) with a 4.43% increase in liabilities and reserves. As of December 31, 2011, the change in net ultimate incurred losses (not including safety margin) for prior years (2003 – 2010) is an increase of $46,112. This reflects less than 1% of the total ultimate incurred ($78,971,071 ultimate incurred estimated by the actuary). 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).

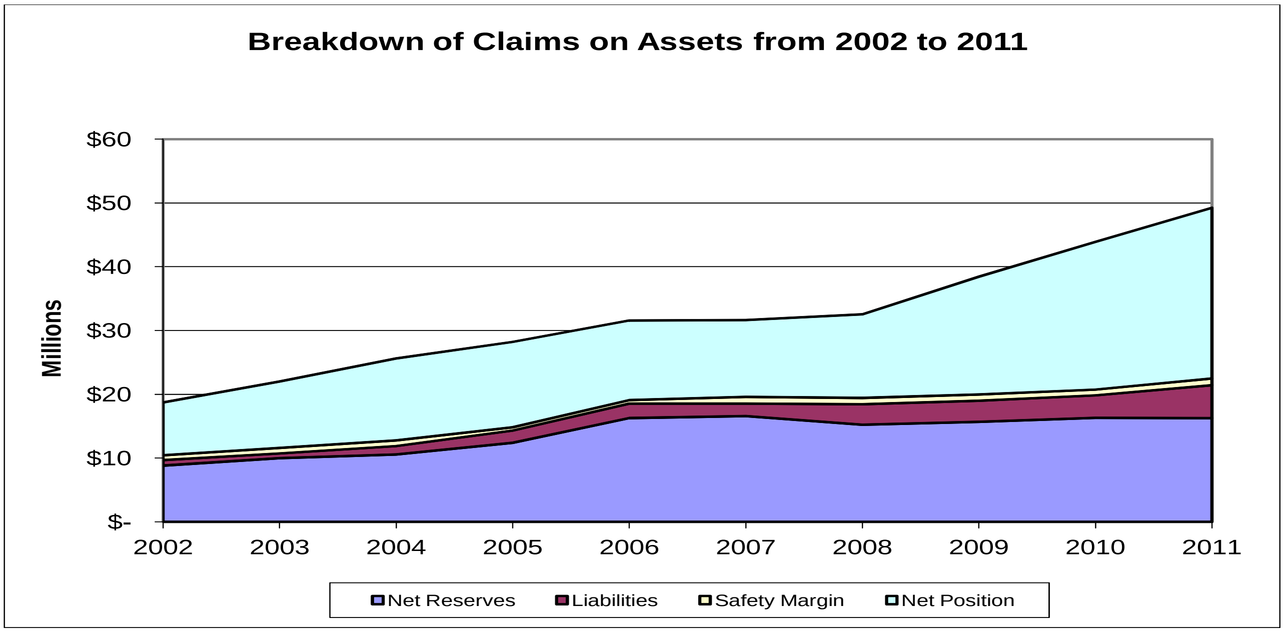
Highlights (Continued)

- The change in net position from 2010 to 2011 was significantly less than it was between 2009 and 2010 ($2,707,990 compared to $4,615,587) due to lower investment earnings, a workers compensation rate decrease and higher reinsurance premiums for added exposures. However, fund contributions were more than sufficient to cover the changes in losses and loss-related expenses resulting in an operating surplus of $1,138,270, despite an additional $14 million in incurred losses due to damage from Tropical Storm Irene. Reinsurance covered all but the $500,000 retention, offsetting most of those claims. Net investment earnings of $2,361,720 added to the surplus and distributions back to members of $792,000 reduced it to end the year with a net change in net position of $2,707,990.

- Net case and non case (IBNR) reserves as of December 31, 2011, decreased by 1.8% or $282,837 from December 31, 2010, from $15,383,674 to $15,100,837. By comparison, net case and non case (IBNR) reserves increased by 3.2% over the prior year at the end of 2009, from $14,911,010 to $15,383,674. The claims expense reserve and the workers' compensation state assessment reserve increased 25% over last year, from $937,030 in 2010 to $1,172,315 in 2011 and increased 22%, from $767,763 in 2009 to $937,030, in 2010.

The graph below measures the trend of the breakdown for each type of claim (liabilities, reserves, safety margin and undesignated net position) on the Fund's total assets and clearly shows the growth of net position over time in relation to the liabilities, net reserves and safety margin. Loss development has remained fairly stable over the past few years, allowing the Fund to strengthen its net position. This solid net position and reinsurance coverage that eliminated most of the risk for such a catastrophic event as Tropical Storm Irene, protected the Fund and in fact allowed it to continue to grow surplus in 2011. The safety margin has been discounted for future investment earnings at a rate of 3.5% for 2008-2011.

Highlights (Continued)



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-four active funds, twenty-three 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 or unexpected adverse claim development.

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

Overview of the Fund's Financial Statements (Continued)

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:

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

These statements present the Fund's status at December 31, 2011 and 2010 and financial developments during 2011 for all cost centers combined.

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

The statement of contributions, expenses and changes in net position 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 position. This figure added to last fiscal year's net position is the new net position total shown in both the statement of net position as well as the statement of contributions, expenses and changes in net position.

Overview of the Fund's Financial Statements (Continued)

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 position, combining statement of contributions, expenses and changes in net position 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 position”, “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 position for 2011 including a comparison to 2010 and 2009, showing the percentage change. Unrestricted equity is made up of designated and undesignated net position, as previously described.

Results and Analysis (Continued)

Financial Analysis

	December 31, 2011	December 31, 2010	Percentage Change	December 31, 2009	Percentage Change
Cash and Investments	$ 45,379,698	$ 41,115,146	10.37 %	$ 35,491,607	15.84 %
Other assets	2,632,245	2,784,694	(5.47)%	2,951,745	(5.66)%
Total assets	48,011,943	43,899,840	9.37 %	38,443,352	14.19 %
Current liabilities	4,966,913	3,515,248	41.30 %	3,316,278	6.00 %
Noncurrent liabilities	16,273,152	16,320,704	(0.29)%	15,678,773	4.09 %
Total liabilities	21,240,065	19,835,952	7.08 %	18,995,051	4.43 %
Net position					
Restricted	1,500,000	1,000,000	50.00 %	792,000	26.26 %
Unrestricted	25,271,878	23,063,888	9.57 %	18,656,301	23.63 %
Total net position	$ 26,771,878	$ 24,063,888	11.25 %	$ 19,448,301	23.73 %

Results and Analysis (Continued)

As of December 31, 2011, total assets increased by 9.37% from $43.9 million to $48.0 million, compared to an increase of 14.19% from 2009 to 2010.

As of December 31, 2011, total current liabilities increased by 41.3% from $3.51 million to $4.96 million. Total current liabilities in 2010 increased 6% over 2009. The increase in 2011 partially related to an increase in contributions paid in advance for the 2012 fund year. These receipts for contributions paid in advance will not be recognized as revenue until 2012 and are therefore a liability to the Fund. The Fund also experienced an increase during 2011 for claims expense and workers' compensation state assessment reserve and reinsurance received in advance for claims resulting from damage caused by Tropical Storm Irene.

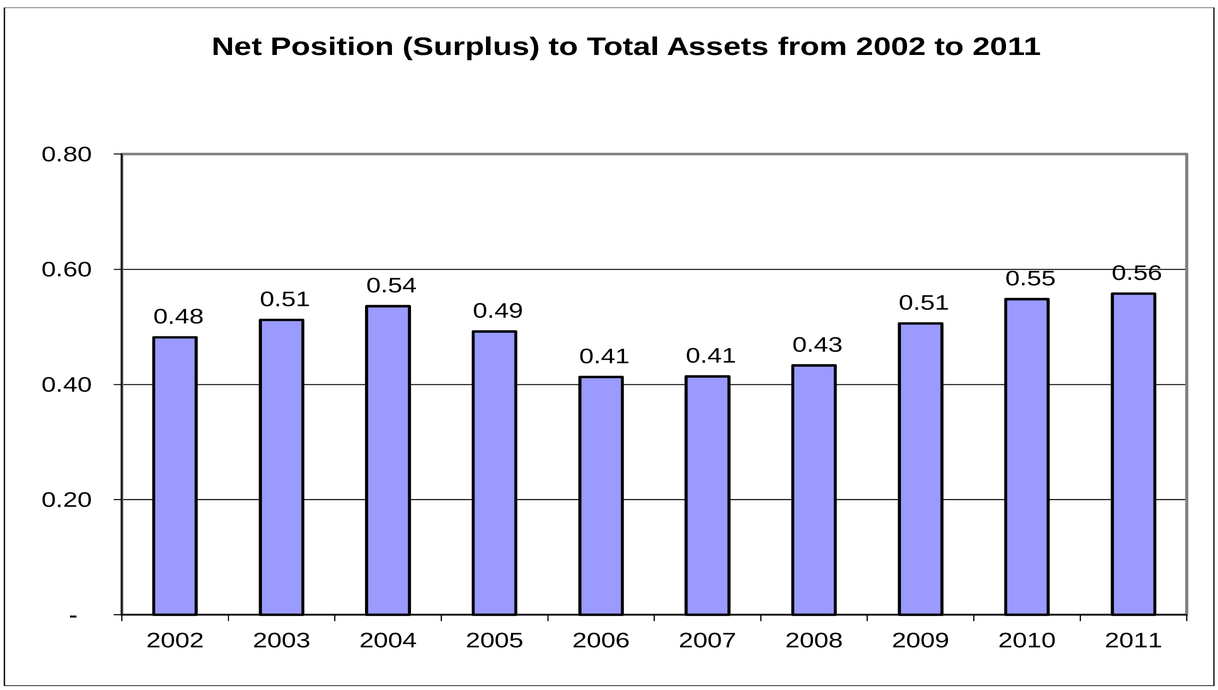
Reserves decreased by 1.8% from 2010 to 2011, compared to a 3.2% increase from 2009 to 2010. Total case and non-case (IBNR) reserves are broken out by fund year in the following table:

Fund Year	12/31/2011	12/31/2010	12/31/2009
1994	$ 35,073	$ 30,796	$ 30,869
1995	13,337	21,173	19,596
1998	-	10,635	474
1999	57,951	54,746	75,558
2000	-	-	-
2001	298,158	152,742	64,019
2002	234,637	232,984	115,566
2003	222,579	263,331	314,352
2004	160,223	283,942	448,565
2005	318,209	752,668	1,695,087
2006	572,584	1,331,680	1,869,894
2007	834,963	1,533,712	1,472,159
2008	1,824,429	2,153,158	3,321,120
2009	2,176,981	3,697,373	5,483,751
2010	3,411,248	4,864,734	-
2011	4,940,465	-	-
Totals	$ 15,100,837	$ 15,383,674	$ 14,911,010

As outlined in the Highlights section, total net position at year end was $26,771,878 up from $24,063,888 at the same time last year. The 2010 to 2011 increase of $2,707,990 is essentially the net result of investment earnings and premium revenues over the increase in loss development for 2011. Net position at December 31, 2010 was $24,063,888, up from $19,448,301 at December 31, 2009.

Results and Analysis (Continued)

The net position to total assets ratio measures the Fund's surplus against the value of its total assets. A higher ratio is positive, providing more of a cushion against unexpected losses, poor investment returns, or operating deficits. The 2011 resutls mean that over half of all the Fund's assets are available to cover any of these potential problems. Net position or surplus as a ratio to total assets has fluctuated over time from 0.41 in 2006 and 2007 to 0.56 in 2011. Improved investment earnings played a large part in the 2009 increase from 0.43 in 2008 to 0.51 in 2009. In 2010 and 2011 the upward trend continued. 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 position.



Results and Analysis (Continued)

The following table summarizes the Statement of Contributions, Expenses and Changes in Net Position as of 2011 with a comparison to 2010 and 2009, showing the percentage changes:

Summary of Contributions, Expenses, and Changes in Equity	2011	2010	Percentage Change	2009	Percentage Change
Fund contributions	$ 17,550,963	$ 18,077,511	(2.91)%	$ 17,320,161	4.37 %
Other revenues	46,163	41,866	10.26 %	23,220	80.30 %
Total operating revenues	17,597,126	18,119,377	(2.88)	17,343,381	4.5 %
Operating expenses:					
Provision for losses and loss adjustment expenses	9,669,523	9,157,602	5.59 %	9,117,651	0.4 %
Broker fees	146,348	146,889	(0.37)%	166,889	(12.0)%
Reinsurance premiums	3,065,166	2,837,441	8.03 %	2,569,456	10.4 %
Other operating expenses	3,577,819	3,435,890	4.13 %	3,502,159	(1.9)%
Total operating expenses	16,458,856	15,577,822	5.66 %	15,356,155	1.4 %
Operating income	1,138,270	2,541,555	(55.21)%	1,987,226	27.9 %
Non-operating revenues:					
Investment income	1,496,958	1,413,383	5.91 %	1,358,352	4.1 %
Net (decrease) increase in fair value of investments	982,949	1,521,391	(35.39)%	2,563,492	(40.7)%
Investment fees	(118,187)	(110,742)	6.72 %	(64,704)	71.15 %
Total non-operating revenues	2,361,720	2,824,032	(16.37)%	3,857,140	(26.8)%
Member distribution-contribution credit	792,000	750,000	5.60 %	499,939	50.0 %
Non-operating income	1,569,720	2,074,032	(24.32)%	3,357,201	(38.2)%
Change in net position	2,707,990	4,615,587	(41.33)%	5,344,427	(13.6)%
Net position at beginning of year	24,063,888	19,448,301	23.73 %	14,103,874	37.9 %
Net position at end of year	$ 26,771,878	$ 24,063,888	11.25 %	$ 19,448,301	23.7 %

The 2011 year ended with an operating income (operating revenue over operating expenses before net investment income and distributions) of $1,138,270 this was increased by net investment earnings of $2,361,720. Combined 2011 operating and non-operating income resulted in net earnings of $3,499,990 before distribution of member contribution credits. Net of the member contribution credits of $792,000, net position increased by $2,707,990. In contrast,

Results and Analysis (Continued)

2010 generated operating income of $2,541,555, which was increased by a net investment earnings of $2,824,032. Combined net earnings were $5,365,587 before a member contribution credit of $750,000 and net position increased by $4,615,587.

The 2011 incurred losses totaled $9,669,523. Incurred losses are comprised of two components: (1) the provision for losses which relate to insured events of the current year; and (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 $9,623,411 on the 2011 policy year, and recorded unfavorable development of $46,112 on prior policy years from 1994 to 2010. The unfavorable development of prior years is primarily attributable to property, workers' compensation, auto liability and law enforcement lines of business, which is offset by favorable development in general liability and public officials lines, resulting in the small net increase in development for prior years. In comparison, losses incurred during 2010 totaled $9,157,602. The Fund incurred losses of $8,363,446 on the 2010 policy year and recorded unfavorable development of $794,156.

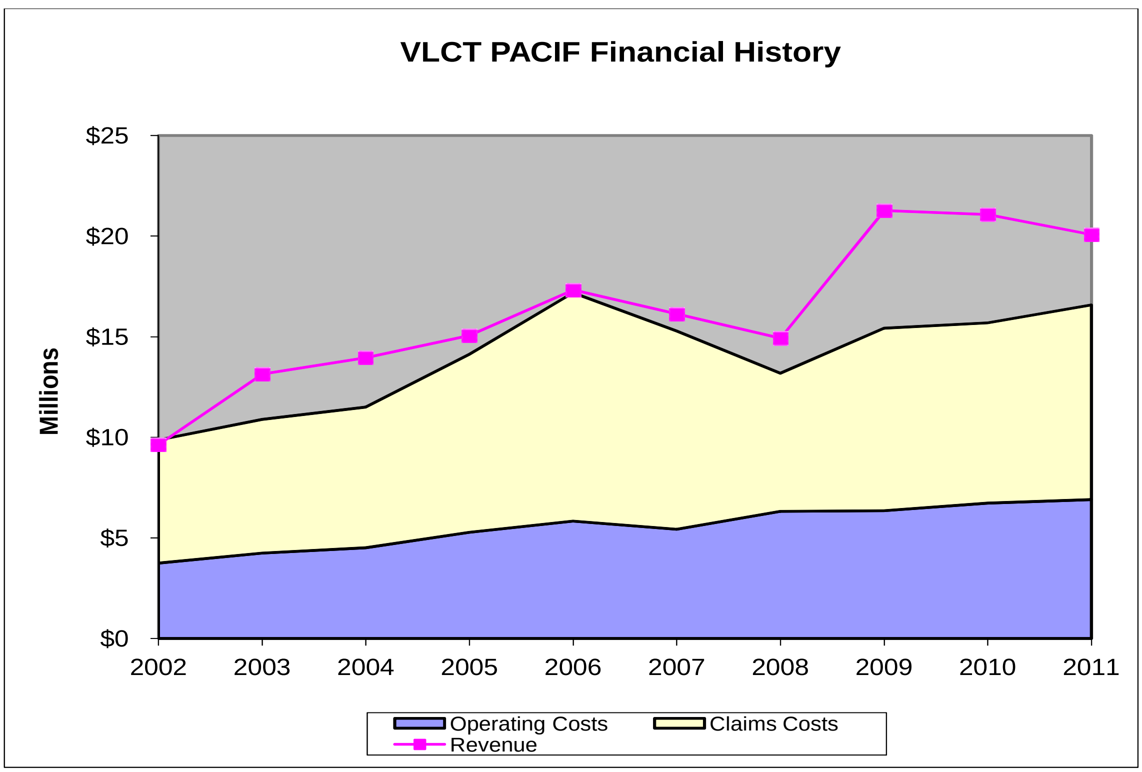
While still a very good year for investment returns, compared to 2010, investment income net of fees decreased by 16.37% (including unrealized gains/losses). Interest and dividend income increased by 5.91% over the prior year, however, market volatility in 2011 impacted the increase in fair market value of the portfolio. Excluding the investment in NLC Mutual Insurance Company, the Fund had 86.9% of their investments in fixed-maturity securities and cash equivalents, and 13.1% invested in equity securities. The Fund's investment policy target asset allocation is 75% fixed-maturity and 25% equities. The Fund’s fixed maturity investments had a weighted return net of fees of 7.86% (up from 7.34% last year), 0.02% above the Fund’s benchmark of 7.84%, which represents the Barclays Capital Aggregate benchmark. Equity investments had a weighted return of 0.91% (down from 16.63% last year), 1.94% below the Fund's benchmark of 1.03%, which represents the Russell 3000 benchmark and 3.02% below the Fund's benchmark of 2.11% which represents the S&P 500.

VLCT Property and Casualty Intermunicipal Fund, Inc.

Management's Discussion and Analysis (Continued)

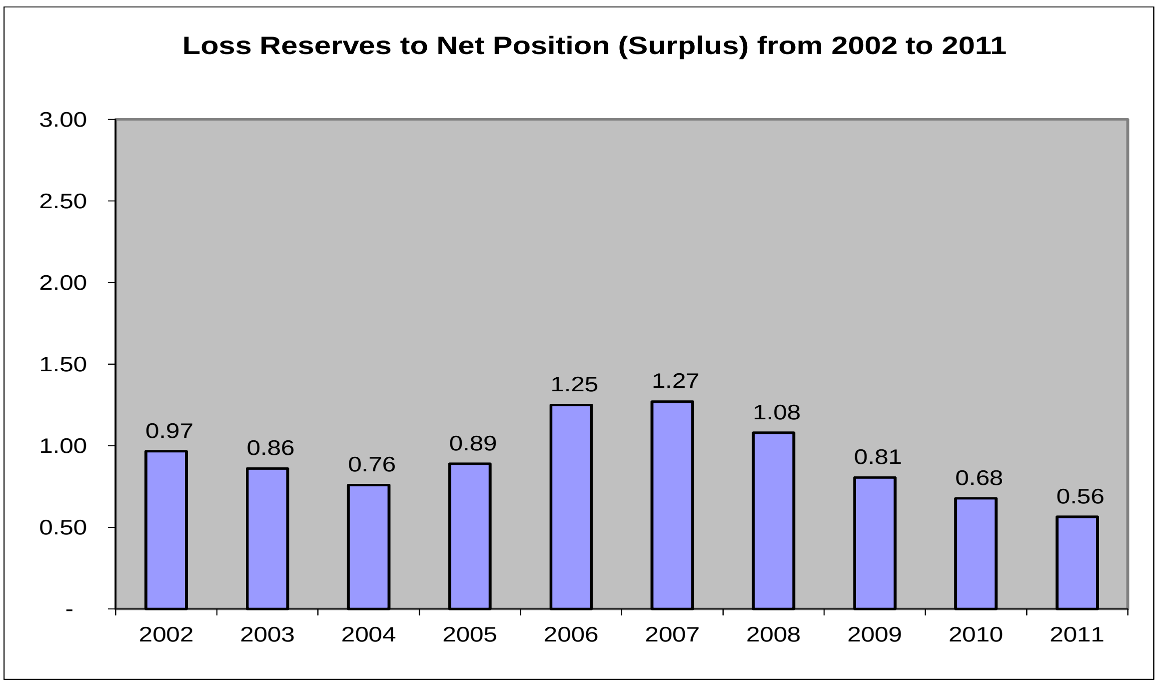
Results and Analysis (Continued)

The graph below shows in summary from 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. At that point losses began a sharp decrease before climbing back up in 2009. The expenses do not include distributions, which are taken from prior year surpluses. The gap between the revenue trend line and the combined claims and operating costs line represents the surplus each year. A portion of these annual surpluses become distributions to members as determined by the actuary and approved by the Board. This clearly shows that the Fund has been successful in its underwriting, covering costs adequately over time, maintaining a solid net position and returning surplus back to its members.



Results and Analysis (Continued)

One way to measure the adequacy of the Fund's net position 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 position gives an indication of the Fund'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 position 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.

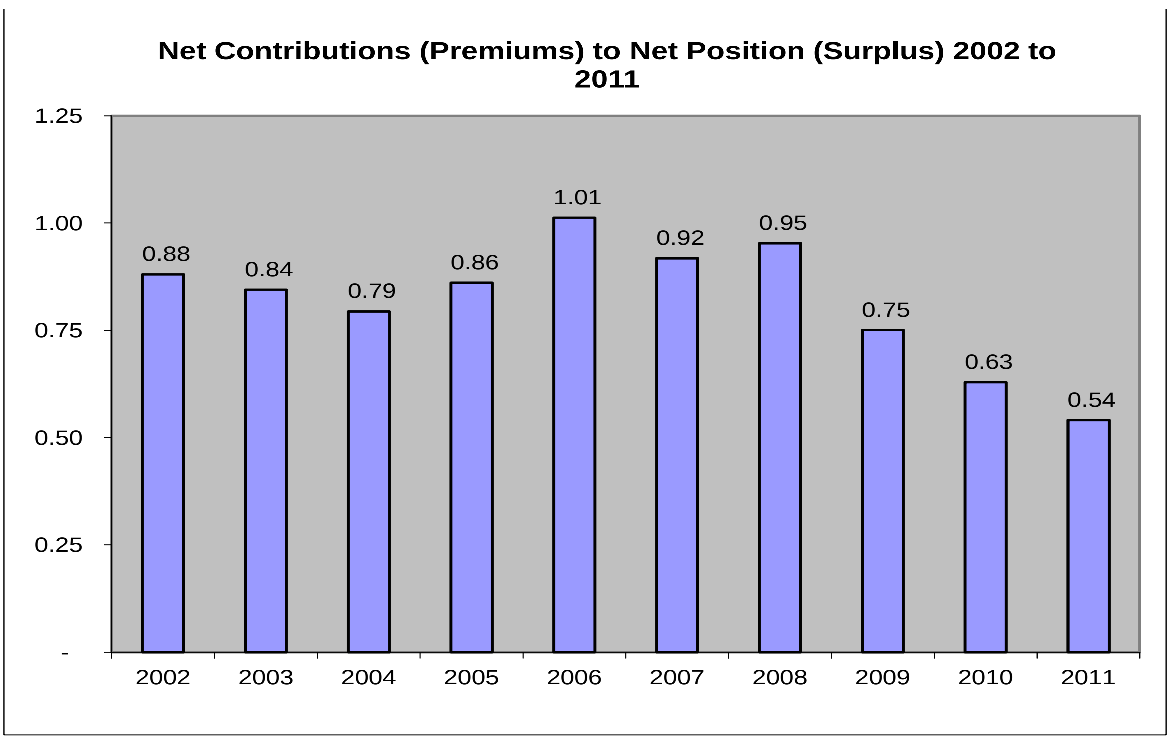


This ratio continues to be well below 3.00 and shows that the Fund's net position has the capacity to sustain fairly material impacts from adverse development without catastrophic consequences to its financial strength.

Results and Analysis (Continued)

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 position will be adequate if the Fund's pricing doesn't cover potential losses. Net contributions (premiums, less reinsurance) to net position ratios, as shown on the following chart, will measure this type of exposure. A ratio over 3.00 means that there is significantly less net position 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 position ratio at December 31, 2011 is 0.54. Commercial standards use a 2:1 ratio as a benchmark, considering a 1:1 ratio to be a very strong position.

The net contributions to net position 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 position and contributions to net position ratios. The Fund's 0.54 ratio is in line with pools of comparable size.



Results and Analysis (Continued)

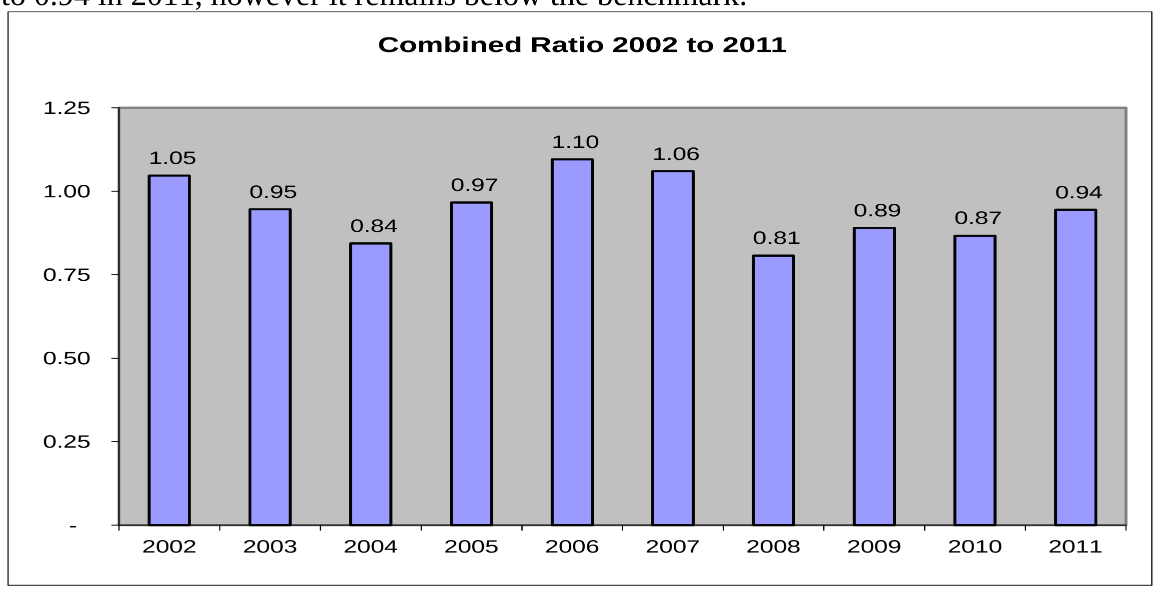
The ten year trends in these three key ratios are indicators of a generally positive position when performance is analyzed on the basis of the ability to cover unanticipated losses or year end deficits. Potential problems that create fiscal stress include higher than projected losses in a given year or investment income that does not meet expectations, which the Fund experienced in 2002, 2005, 2006 and 2008. From 2009 to 2011, claims have steadily increased but with no significant spikes. Tropical Storm Irene-related property claims in 2011 could have had a significant impact on these ratios if property reinsurance had not covered all but the Fund's $500,000 retention. There may be future years with both adverse claims development and low or even negative gains in income from investments that make it particularly important for the Fund to keep adequate net position 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 continued to strengthen its net position and remains in a good position to absorb future unexpected losses or poor investment earnings.

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. 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 ratio of contributions to net position. 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. Although the Fund's workers' compensation premiums constitute 37.5% of the total book of business, the longer tail for these claims makes forecasting future costs less certain and necessitates a more substantial cushion against unexpected losses.

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 position. If you factor in the NLC Mutual investment, the Fund currently has 17.5% of its investments in higher risk investments with 82.5% in less risky fixed-maturity securities and cash equivalents. However, with close to 40% 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. In accordance with the Fund's investment policy, the target for Equity investments is 25% but no more than 50% of Fund surplus. Maintaining investments within these guidelines helps the Fund manage that risk.

Results and Analysis (Continued)

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 1.00. The difference between the combined ratio and 1.00 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 two prior years. During 2007, the Fund began to see the reversal of this trend and has remained below the benchmark since. In 2011, a reduction of premiums combined with increases in losses and reinsurance moved this ratio from 0.87 in 2010 to 0.94 in 2011, however it remains below the benchmark.



Outlook/Economic Factors

Fund year 2012 renewal contribution levels continued to reflect favorable prior year results to benefit the Fund's member municipalities. The efforts of the members and their employees, along with the Fund's risk management services staff working together diligently to control losses are paying off, which resulted in flat renewal rates for 2012. The Fund's Board of Directors agreed to no rate increase for contributions required to maintain the Fund.

The Board restricted $1,500,000 from surplus to be returned to the membership based on an actuarial analysis of the financial status of prior fund years. This is a 50 percent increase over last year's distribution. Of this total, $1,250,000 will be returned to members as contribution credits and $250,000 was allocated to fund the safety equipment grant program. Each member's

Outlook/Economic Factors (Continued)

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 2012 contribution, and the member must renew in the Fund in order to receive the credit. Since inception, the Fund has returned over $15 million in contribution credits to the membership.

Tropical Storm Irene wreaked havoc on Vermont municipalities in late August of 2011. Fortunately for our members, the Fund had excellent flood coverage in place to address approximately $14 million in reported losses. The Fund's property reinsurance structure protected both the members and the Fund from the bulk of the costs associated with this occurrence. The Fund's response to members that suffered losses was timely and comprehensive. As a result of this storm the Fund faced increased reinsurance costs for which the Fund was able to budget and a change in the property reinsurance structure. The Fund was able to put in place a new property reinsurance structure that continues to offer an excellent level of protection for both the members and the Fund.

The 2012 Coverage Document was updated with the bulk of the changes being technical in nature. The Board also added new accident and disability coverage for volunteers in 2012. This coverage recognizes that volunteers are not covered by workers' compensation and provides benefits should an individual be injured while volunteering on behalf of a member municipality. The Board also purchased a separate accident and disability policy for volunteer firefighters of the Fund's member departments to fill in the gaps in workers' compensation coverage. These coverages are being provided by an outside carrier so the Fund is not taking on any additional risk. The cost of these policies is being funded by the Fund without an increase in rates.

The Fund is continuing to assist members in their risk management initiatives with a focus on workers' compensation. This is an area where the Fund believes it can have a big impact on reducing claims and to drive down members' 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 workers' compensation rewards program (a structured program with emphasis on prescribed risk and claim management best practices) is in its fourth year with approximately a dozen members participating. The incident review process (IRP) is having a great impact on the Fund's more severe workers' compensation claims. The Fund's efforts are showing results as lost time workers' compensation claim frequency and severity are down significantly over the last five years.

Outlook/Economic Factors (Continued)

In addition to an emphasis on workers' compensation safety, the Fund 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 the Fund has added advanced level classes to the program.

In 2010, the Fund launched the PACIF Safety Equipment Grant Program, which provides a 50/50 funding match up to $5,000 for the purchase of specific safety related equipment. To date, this program has assisted over 100 members reduce their exposure to losses through the purchase of safety equipment that may not have been purchased without the grant. This program continues to be enormously successful.

2011 brought another new program to life that has been widely utilized by the Fund's 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 the Fund's members attend trainings and seminars that they may not have attended without the scholarship.

The success of the Fund's program is a testament of the power of pooling Vermont municipalities together for a mutual benefit. It is the Fund's intent to continue to relentlessly pursue the Fund’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 Position

	As of December 31, 2011	As of December 31, 2010
Assets		
Investments		
Fixed-maturity securities, at fair value	$ 31,464,715	$ 29,893,775
Mutual funds, at fair value	5,011,256	5,141,743
Investment in NLC Mutual Insurance Company	2,026,321	1,939,063
Total investments	38,502,292	36,974,581
Cash and cash equivalents	6,877,406	4,140,565
Accrued investment income	330,167	323,753
Contributions receivable	423,785	484,617
Accounts receivable - deductibles and subrogation	167,735	588,438
Prepaid expenses	785,229	488,776
Reinsurance recoverable - paid losses	303,394	215,936
Other assets	621,935	683,174
Total Assets	$ 48,011,943	$ 43,899,840
Liabilities and Net Position		
Liabilities		
Losses and loss adjustment expenses, net of reinsurance	$ 15,100,837	$ 15,383,674
Accounts payable	365,904	152,021
Contributions collected in advance	4,154,599	3,363,227
Reinsurance collected in advance	446,410	-
Claims expense and workers' compensation state assessment reserve	1,172,315	937,030
Total liabilities	21,240,065	19,835,952
Net Position		
Restricted		
Contribution credits	1,250,000	800,000
Safety grant program	250,000	200,000
Unrestricted	25,271,878	23,063,888
Total net position	26,771,878	24,063,888
Total Liabilities and Net Position	$ 48,011,943	$ 43,899,840

See accompanying notes to the financial statements.

VLCT Property and Casualty Intermunicipal Fund, Inc.

Statements of Contributions, Expenses, and Changes in Net Position

	Years ended December 31, 2011	2010
Operating Revenues		
Fund contributions	$ 17,550,963	$ 18,077,511
Other income	46,163	41,866
Total operating revenues	17,597,126	18,119,377
Operating Expenses		
Losses and loss adjustment expenses, net of reinsurance	9,669,523	9,157,602
General and administrative expenses	3,577,819	3,435,890
Reinsurance expenses	3,065,166	2,837,441
Broker fees for reinsurance	146,348	146,889
Total operating expenses	16,458,856	15,577,822
Operating income	1,138,270	2,541,555
Non-Operating Revenues (Expenses)		
Investment income - interest and dividends	1,409,700	1,321,047
Investment income - net change in fair value	982,949	1,521,391
Investment income - NLC Mutual Insurance Company	87,258	92,336
Investment management fees	(118,187)	(110,742)
Net non-operating revenue	2,361,720	2,824,032
Member distributions - contribution credit	792,000	750,000
Non-operating income, net	1,569,720	2,074,032
Change in Net Position	2,707,990	4,615,587
Net Position, Beginning of Year	24,063,888	19,448,301
Net Position, End of Year	$ 26,771,878	$ 24,063,888

See accompanying notes to the financial statements.

VLCT Property and Casualty Intermunicipal Fund, Inc.

Statements of Cash Flows

	Years ended December 31, 2011	2010
Cash Flows from Operating Activities		
Receipts from members	$ 17,611,167	$ 17,813,155
Receipts for miscellaneous income	46,163	41,866
Payments for reinsurance expenses	(3,361,619)	(2,927,003)
Net payments for claims and claims adjustment expenses	(8,937,420)	(8,138,525)
Payments for administrative and general expenses	(3,449,045)	(3,963,034)
Net cash provided by operating activities	1,909,246	2,826,459
Cash Flows from Investing Activities		
Cost of investments purchased	(22,193,714)	(18,312,263)
Proceeds from sales and maturities of investments	21,648,952	13,886,021
Net receipts for interest and dividends	1,372,357	1,275,693
Net cash provided by (used in) investing activities	827,595	(3,150,549)
Net change in cash and cash equivalents	2,736,841	(324,090)
Cash and Cash Equivalents, Beginning of Year	4,140,565	4,464,655
Cash and Cash Equivalents, End of Year	$ 6,877,406	$ 4,140,565
Reconciliation of Net Income to Net Cash Provided By Operating Activities		
Operating Income	$ 1,138,270	$ 2,541,555
Add (deduct) items not affecting cash:		
Member distributions - contribution credit	(792,000)	(750,000)
Changes in assets and liabilities:		
Contributions receivable	60,832	248,184
Accounts receivable - deductibles and subrogation	420,703	(250,934)
Prepaid expenses	(296,453)	(89,562)
Reinsurance recoverable - paid losses	(87,458)	628,080
Other assets	61,239	(341,765)
Losses and loss adjustment expenses, net of reinsurance	(282,837)	472,664
Accounts payable	213,883	(38,490)
Contributions collected in advance	791,372	237,460
Reinsurance collected in advance	446,410	-
Claims expense and workers' compensation state assessment reserve	235,285	169,267
Net Cash Provided by Operating Activities	$ 1,909,246	$ 2,826,459

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, 2011 and 2010, the Fund provided property and casualty and workers' compensation coverage to 321 political subdivisions including cities, towns, villages and special purpose 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 financial statements of the Fund have been prepared using the accrual basis of accounting in conformity with accounting principles generally accepted in the United States ("GAAP") as applied to governmental entities. In accordance with Government Accounting Standards Board ("GASB") Statement No. 62 *Codification of Accounting and Financial guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* ("Statement No. 62"), the Fund follows all applicable GASB guidance. 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 15, 2012, 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-four active funds funds, twenty-three 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 or unexpected adverse claim development.

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-retention levels; (2) fluctuations in interest rates impact 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

Note B - Summary of Significant Accounting Policies (Continued)

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 position. 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, 2011 and 2010 were as follows:

	December 31, 2011		December 31, 2010	
	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	6,627,406	6,861,011	3,890,565	4,158,585
Total	$ 6,877,406	$ 7,111,011	$ 4,140,565	$ 4,408,585

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 position.

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 position has been designated as a safety margin or reserve for adverse development to increase the probability to a 90% confidence level 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 estimates 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 receivable could be

Note B - Summary of Significant Accounting Policies (Continued)

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, 2011 and 2010. 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, 2011 and 2010. 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 amounts.

Reinsurance recoverable on paid losses and loss adjustment expenses are presented as an asset in the accompanying statements of net position. Reinsurance recoverable on unpaid losses was $15,120,062 and $4,332,410 as of December 31, 2011 and 2010, respectively, and is netted against the liability for unpaid losses and loss adjustment expenses on the statements of net position.

During 2011, the Fund collected reinsurance in advance of payments for claims relating to Tropical Storm Irene. As of December 31, 2011, this amount represented $446,410. There were no advance reinsurance payments at December 31, 2010.

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.

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 2010 audited financial statements to conform to the 2011 presentation, which had no effect on net position or change in net position.

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, 2011 and 2010, total VLCT budgeted expenses allocated to the Fund were $2,361,961 and $2,429,574, respectively, which amounted to 58.7% and 58.8%, 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 services
- 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 2011, 21% of the expenses paid were for administration and marketing, 20% for underwriting, 37% for claims handling and 22% for loss prevention.

For 2010, 26% of the expenses paid were for administration and marketing, 19% for underwriting, 34% for claims handling and 21% 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, 2011 and 2010.

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, 2011. 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	$ 1,241,849	$ 1,679,335	$ -	$ 174,619	$ 3,095,803
U.S. Agencies	-	-	-	2,067,729	2,067,729
U.S. Agency MBS	-	103,982	856,353	218,677	1,179,012
Corporate Bonds	2,798,257	1,646,049	8,476,890	10,489,913	23,411,109
Municipal Bonds	-	-	483,764	895,180	1,378,944
Foreign Bonds	-	-	-	332,118	332,118
Total	$ 4,040,106	$ 3,429,366	$ 9,817,007	$ 14,178,236	$ 31,464,715

The table below outlines the Standard and Poor's credit ratings of the Fund's fixed-maturity security investment holdings as of December 31, 2011:

	U.S. Treasuries	U.S. Agencies	U.S.Agency MBS	Corporate Bonds	Municipal Bonds	Foreign Bonds	Total
AAA	$ -	$ -	$ -	$ 2,638,848	$ 334,137	$ -	$2,972,985
AA	-	-	-	551,988	-	-	551,988
A	-	-	-	2,886,289	231,968	-	3,118,257
AA+	3,095,803	2,067,729	1,179,012	3,297,558	328,923	-	9,969,025
A+	-	-	-	1,972,157	312,805	332,118	2,617,080
AA-	-	-	-	1,217,147	171,111	-	1,388,258
A-	-	-	-	4,757,729	-	-	4,757,729
BBB	-	-	-	1,593,881	-	-	1,593,881
BBB+	-	-	-	2,655,720	-	-	2,655,720
BBB-	-	-	-	1,463,655	-	-	1,463,655
Not Rated	-	-	-	376,137	-	-	376,137
Total	$ 3,095,803	$ 2,067,729	$ 1,179,012	$23,411,109	$ 1,378,944	$ 332,118	$1,464,715

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, 2011:

	Fair Value	Effective Duration
U.S. Treasuries	$ 3,095,803	2.61
U.S. Agencies	2,067,729	2.56
U.S. Agency MBS	1,179,012	2.91
Corporate Bonds	23,411,109	8.29
Municipal Bonds	1,378,944	10.86
Foreign Bonds	332,118	8.78
Total	$ 31,464,715	5.84

The average effective duration of the investment portfolio as of December 31, 2011 and 2010, was 5.84 and 5.43 years, respectively.

The following table shows the classifications of the Fund's mutual fund investments as of December 31, 2011 and 2010:

Classification	2011 Fair Value	2010 Fair Value
Large Cap Blend	$ 1,041,264	$ 1,171,643
Large Cap Growth	743,591	784,197
Large Cap Value	672,886	687,622
Mid Cap Growth	869,572	880,207
Mid Cap Value	834,181	788,063
Small Cap Blend	849,762	830,011
Total	$ 5,011,256	$ 5,141,743

Note D - Investments (Continued)

Gross realized gains and losses on the sale of investments were $508,219 and $120,038, respectively, and net unrealized gains attributable to the change in fair value of investments were $594,768 for the year ended December 31, 2011. Gross realized gains and losses on the sale of investments were $530,864 and $115,521, respectively, and net unrealized losses attributable to the change in fair value of investments were $1,106,048 for the year ended December 31, 2010.

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:

	2011	2010
Capital contribution	$ 494,577	$ 494,577
Accumulated equity in earnings of NLC	1,531,744	1,444,486
Total investment in NLC	$ 2,026,321	$ 1,939,063

The Fund recognized investment income from NLC of $87,258 and $92,336 for the years ending December 31, 2011 and 2010, 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 $2,026,321 and $1,939,063 at December 31, 2011 and 2010, 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)

Upon termination, 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, 2011 and 2010, 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 2011 and 2010.

Contributions receivable includes contributions recorded but not currently due from the City of Burlington of $248,569 and $297,968 at December 31, 2011 and 2010, respectively. Contributions receivable also include current receivables due from other municipalities of $175,216 and $186,649 at December 31, 2011 and 2010, respectively.

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:

Note F - Contributions Receivable (Continued)

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 %	$ 1,069,180
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 %	$ 1,219,607

Fund years 1992, 1993, 1997 through 2000, 2002 and 2005 currently have no receivables outstanding at December 31, 2011, 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:

	2011	2010
Case-basis reserves	$ 24,170,232	$ 12,110,612
IBNR reserves	6,050,667	7,605,472
Gross reserves	30,220,899	19,716,084
Reinsurance recoverable on unpaid losses	(15,120,062)	(4,332,410)
Net reserves	15,100,837	15,383,674
Claims expense and WC state assessment reserve	1,172,315	937,030
Total net reserves	$ 16,273,152	$ 16,320,704

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:

	2011	2010
Liability at beginning of year, net of reinsurance recoverable of $4,332,410 and $2,323,720	$ 16,320,704	$ 15,678,773
Provision for losses:		
Provision for insured events of the current year	9,623,411	8,363,446
Increase in provision for insured events of prior years	46,112	794,156
Total provision for losses during the year	9,669,523	9,157,602
Payments:		
Claims and claims adjustment expenses attributable to insured events of the current year	4,132,562	3,130,670
Claims and claims adjustment expenses attributable to insured events of the prior years	5,584,513	5,385,001
Total payments during the year	9,717,075	8,515,671
Liability at end of year, net of reinsurance recoverable of $15,120,062 and $4,332,410	$ 16,273,152	$ 16,320,704

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

During 2011, the Fund experienced unfavorable loss development of prior years related to the 2010 workers' compensation and law enforcement, 2008 auto liability and 2006 general liability coverages. The unfavorable development was partially offset by favorable development related to the 2009 and 2006 workers' compensation and 2007 through 2010 general liability coverages. During 2010, 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 position; 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	1/1/2009-1/1/2012	$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	1/1/2011-1/1/2012	$500,000	$10,000,000
	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'	1/1/2006-1/1/2012	$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	1/1/1996-1/1/2012	$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. Effective January 1, 2011, NLC takes 100% of the $500,000 xs $500,000 layer for property coverage. Reinsurance recoverable from NLC amounted to $557,950 and $65,382 at December 31, 2011 and 2010, respectively.

Note I - Line of Credit

During 2011, the Fund entered into an agreement with People's United Bank for a $5,000,000 line of credit with interest being charged at the Prime Rate less 0.75%, with a floor of 0%. The line is secured by the Fund's cash and investments. There have been no borrowings under this agreement.

Note J - Net Position

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 position accrues 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 net position 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, 2011 and 2010 was $1,045,499 and $902,724, 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 has restricted funds for premium credits and the safety grant program, based on actuarial recommendation, for certain prior fund years. The credits are applied towards subsequent fund year premium contributions and expensed as member distributions-contribution credit on the statement of contributions, expenses and changes in net position. The member safety grant expenses are included in general and administrative expenses. During 2011, distributions of $992,000 were applied; $792,000 for contribution credits to be allocated to individual members upon renewal and $200,000 for the member safety grant program. Restricted funds totaling $792,000 for 2010 related solely for contribution credits. The Board

Note J - Net Position (Continued)

has approved restricted funds totaling $1,500,000 for 2012; $1,250,000 for contribution credits to be allocated to individual members upon renewal and $250,000 for the member safety grant program.

Distributions from the fund years are as follows:

Year	2012 Credits	2011 Credits	2010 Credits
2002	$ -	$ 58,194	$ 46,244
2003	156,324	201,903	160,165
2006	216,188	222,157	176,211
2007	271,453	268,411	211,861
2008	374,619	249,335	197,519
2009	481,416	-	-
Total	$ 1,500,000	$ 1,000,000	$ 792,000

Note K - 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, 2011

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, 2011

	Fiscal and Policy Year Ended (in thousands of dollars)									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
(1) Gross contributions and investment income	$ 17,435	$ 18,359	$ 17,534	$ 16,347	$ 15,319	$ 16,002	$ 14,717	$ 13,137	$ 12,590	$ 10,638
(2) Less: Reinsurance expenses	2,671	2,985	2,690	2,805	2,523	2,783	2,512	2,308	1,981	1,473
(3) Net earned premiums and investment income	14,764	15,374	14,844	13,542	12,796	13,219	12,205	10,829	10,609	9,165
(4) Unallocated expenses	3,490	3,499	3,505	3,613	3,008	2,927	2,649	2,296	2,297	2,034
(5) Estimated losses and allocated expenses incurred, net at the end of year:	9,610	8,363	8,461	8,250	9,411	9,423	8,583	7,563	6,764	6,442
(6) Net paid (cumulative) as of:										
End of policy year	6,188	3,131	2,646	2,509	2,881	2,321	2,689	2,584	2,048	1,794
One year later		5,054	5,214	4,432	4,848	5,044	5,719	4,648	4,101	3,759
Two years later			6,448	5,162	5,985	6,478	7,497	5,843	5,242	4,675
Three years later				5,756	6,566	7,390	8,574	7,019	5,988	5,231
Four years later					6,943	7,681	9,183	7,759	6,396	5,414
Five years later						8,436	9,962	8,805	6,643	5,570
Six years later							10,848	9,047	6,732	5,650
Seven years later								9,193	6,791	5,700
Eight years later									6,816	5,870
Nine years later										5,888
(7) Reestimated net incurred losses and allocated expenses										
End of policy year	9,610	8,363	8,461	8,250	9,411	9,423	8,583	7,563	6,764	6,442
One year later		8,653	9,014	7,849	7,943	9,213	10,227	7,731	6,672	6,266
Two years later			8,546	7,448	7,406	9,311	10,291	7,888	6,644	5,795
Three years later				7,687	8,094	9,209	10,801	8,474	6,792	5,872
Four years later					7,820	9,037	10,801	8,565	6,830	5,647
Five years later						9,008	10,643	9,238	7,050	5,826
Six years later							10,744	9,310	7,031	5,800
Seven years later								9,418	7,068	5,816
Eight years later									7,073	6,089
Nine years later										6,226
(8) Increase (decrease) in estimated net incurred losses and allocated expenses from end of policy year	$ -	$ 290	$ 85	$ (563)	$ (1,591)	$ (415)	$ 2,161	$ 1,855	$ 309	$ (216)

See accompanying notes to the financial statements.

VLCT Property and Casualty Intermunicipal Fund, Inc.

Reconciliation of Claim Liabilities by Type of Contract

December 31, 2011

	Workers' Compensation		Property and Casualty Lines		Total	
	2011	2010	2011	2010	2011	2010
Reserve for losses and LAE at beginning of year, net of reinsurance	$ 10,220,688	$ 9,990,289	$ 6,100,016	$ 5,688,484	$ 16,320,704	$ 15,678,773
Losses and LAE incurred relating to:						
Current year	3,356,895	2,510,168	6,266,516	5,853,278	9,623,411	8,363,446
Prior years	1,161,386	533,069	(1,115,274)	261,087	46,112	794,156
Total losses and LAE incurred	4,518,281	3,043,237	5,151,242	6,114,365	9,669,523	9,157,602
Losses and LAE paid relating to:						
Current year	1,463,505	967,097	2,669,057	2,163,573	4,132,562	3,130,670
Prior years	3,244,140	1,845,741	2,340,373	3,539,260	5,584,513	5,385,001
Total losses as LAE paid	4,707,645	2,812,838	5,009,430	5,702,833	9,717,075	8,515,671
Reserve for losses and LAE at end of year, net of reinsurance	$ 10,031,324	$ 10,220,688	$ 6,241,828	$ 6,100,016	$ 16,273,152	$ 16,320,704

See accompanying notes to the financial statements.

VLCT Property and Casualty Intermunicipal Fund, Inc.

Combining Statement of Net Position

December 31, 2011

	Surplus Reserve Fund	2012 Fund Year	2011 Fund Year	1992 - 2010 Fund Year	Total
Assets					
Fixed-maturity securities, at fair value	$ 20,238,351	$ -	$ -	$ 11,226,364	$ 31,464,715
Mutual funds, at fair value	-	-	-	5,011,256	5,011,256
Investment in NLC Mutual Insurance Company	2,026,321	-	-	-	2,026,321
Total Investments	22,264,672	-	-	16,237,620	38,502,292
Cash and cash equivalents	(7,181,450)	3,399,632	7,443,888	3,215,336	6,877,406
Accrued investment income	175,243	-	-	154,924	330,167
Contributions Receivable	-	-	171,900	251,885	423,785
Accounts receivable - deductibles and subrogation	-	-	45,271	122,464	167,735
Prepaid expenses	-	754,967	27,092	3,170	785,229
Reinsurance recoverable - paid losses	-	-	-	303,394	303,394
Other assets	417,004	-	204,931	-	621,935
Total Assets	$ 15,675,469	$ 4,154,599	$ 7,893,082	$ 20,288,793	$ 48,011,943
Liabilities					
Losses and loss adjustment expenses, net of reinsurance	$ -	$ -	$ 4,940,465	$ 10,160,372	$ 15,100,837
Accounts payable	-	-	337,742	28,162	365,904
Contributions collected in advance	-	4,154,599	-	-	4,154,599
Reinsurance collected in advance	-	-	446,410	-	446,410
Claims expense and workers' compensation state assessment reserve	-	-	550,384	621,931	1,172,315
Total Liabilities	-	4,154,599	6,275,001	10,810,465	21,240,065
Net Position					
Restricted	-	-	-	1,500,000	1,500,000
Unrestricted	15,675,469	-	1,618,081	7,978,328	25,271,878
Total Net Position	15,675,469	-	1,618,081	9,478,328	26,771,878
Total Liabilities and Net Position	$ 15,675,469	$ 4,154,599	$ 7,893,082	$ 20,288,793	$ 48,011,943

See accompanying notes to the financial statements.

VLCT Property and Casualty Intermunicipal Fund, Inc.

Combining Statement of Contributions, Expenses and Change in Net Position

December 31, 2011

	Surplus Reserve Fund	2012 Fund Year	2011 Fund Year	1992 - 2010 Fund Year	Total
Operating Revenues					
PC contributions	$ -	$ -	$ 11,124,487	$ (8,477)	$ 11,116,010
WC contributions	-	-	6,667,254	(232,301)	6,434,953
Other income	-	-	46,381	(218)	46,163
Total operating (expenses) revenues	-	-	17,838,122	(240,996)	17,597,126
Operating expenses					
Losses and loss adjustment expenses, net of reinsurance	-	-	9,623,411	46,112	9,669,523
General and administrative expenses	15,655	-	3,463,228	98,936	3,577,819
Reinsurance expenses	188,807	-	2,872,331	4,028	3,065,166
Broker fees for reinsurance	-	-	146,348	-	146,348
Total operating expenses	204,462	-	16,105,318	149,076	16,458,856
Operating (loss) income	(204,462)	-	1,732,804	(390,072)	1,138,270
Non-operating revenues (expenses)					
Investment income - interest and dividends	776,798	-	4,315	628,587	1,409,700
Investment income - net change in fair value	208,431	-	-	386,337	594,768
Net realized gains	236,816	-	-	151,365	388,181
Investment income - NLC Insurance Company	87,258	-	-	-	87,258
Investment management fees	(182)	-	(118,005)	-	(118,187)
Net non-operating revenues	1,309,121	-	(113,690)	1,166,289	2,361,720
Member contributions - contribution credit	-	-	-	792,000	792,000
Non-operating income (loss)	1,309,121	-	(113,690)	374,289	1,569,720
Change in net position	1,104,659	-	1,619,114	(15,783)	2,707,990
Net position, beginning of year	14,570,810	-	(1,033)	9,494,111	24,063,888
Net position, end of year	$ 15,675,469	$ -	$ 1,618,081	$ 9,478,328	$ 26,771,878

See accompanying notes to the financial statements.

VLCT Property and Casualty Intermunicipal Fund, Inc.

Schedule of General and Administrative Expenses

December 31, 2011 and 2010

	2011	2010
VLCT Administration	$ 2,361,961	$ 2,429,574
Data System	287,453	185,279
Consulting Services	14,534	18,148
Actuarial Services	42,805	32,452
Legal Services	3,375	2,744
Accounting	52,212	49,593
Banking Costs	28,510	25,406
Investment Consulting Fees	-	-
Insurance	40,550	32,428
Board of Trustees	23,871	25,137
Staff Training	32,019	27,376
Trustee Training	-	-
Vehicles	65,587	67,149
Printing	4,682	11,468
Member Training	135,259	223,152
Drug and Alcohol	65,366	55,081
Wellness	155,099	146,256
Promotions	240,170	94,673
Dues and Subscriptions	17,290	9,484
Town Fair	768	438
Miscellaneous	6,308	52
Total	$ 3,577,819	$ 3,435,890

See accompanying notes to the financial statements.