

VLCT Unemployment Insurance Trust, Inc.

Audited Financial Statements
with Supplementary Information

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

VLCT Unemployment Insurance Trust, Inc.

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with Supplementary Information

Years ended December 31, 2011 and 2010

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Report of Independent Auditors

The Board of Directors
VLCT Unemployment Insurance Trust, Inc.

We have audited the accompanying statements of net position of VLCT Unemployment Insurance Trust, Inc. ("the Trust") as of December 31, 2011 and 2010 and the related statements of revenues, expenses, and changes in net position 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 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 Trust 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 - 10 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 basic 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
April 26, 2012

Vermont firm registration: 092-0000267

VLCT Unemployment Insurance Trust, Inc.

Management's Discussion and Analysis

Years ended December 31, 2011 and 2010

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, 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 in 2011 by \$1,320,007, with an increase in total assets of \$265,935 and a small decrease in liabilities of \$21,315. Assets exceeded liabilities in 2010 by \$1,032,757, with total assets increasing by \$53,770 and liabilities decreasing by \$39,480.
- Net position (formerly known as "net assets") in 2011 increased by \$287,250 or 27.8% from 2010. This compares to an increase of \$93,250 or 10% experienced last year. The increase in 2011 was primarily the result of a decrease in claim payments of \$81,581 or 10.9% combined with an increase in contributions of \$164,577 or 19.4%. The ratio of net position to total assets increased from 74.3% in 2010 to 79.7% in 2011. This ratio measures the ability of the Trust to withstand unanticipated increases in claims that are not offset by contributions, as well as negative market performance during the year.
- No rate credits were given in 2011 or 2010 due to projected deficits during budget development in 2010 and 2009, respectively. In 2011, the Board of Directors (the Board) approved a \$50,000 rate credit to be applied against 2012 contributions. This amount has been restricted in the statement of net position as of December 31, 2011.

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 - Budgetary Basis

VLCT Unemployment Insurance Trust, Inc.

Management's Discussion and Analysis (Continued)

Overview of the Trust's Financial Statements- Continued

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

These statements present the Trust's status at December 31, 2011 and 2010 and financial developments during 2011 and 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 position present the economic position of the Trust as of December 31, 2011 and 2010, showing the assets owned by the Trust and how those assets are financed: by debt or short-term obligations, and by net position (the Trust's equity), more commonly known as the "net assets" prior to the implementation of GASB 63 reporting requirements, or "surplus" as it is referred to in the insurance industry.

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

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, 2011 is presented for the purposes of additional analysis and is not a required part of the basic financial statements.

VLCT Unemployment Insurance Trust, Inc.

Management's Discussion and Analysis (Continued)

Overview of the Trust's Financial Statements- Continued

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 position", 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 position:

	<u>December 31,</u> 2011	<u>December 31,</u> 2010	<u>Percentage</u> <u>Change</u>	<u>December 31,</u> 2009	<u>Percentage</u> <u>Change</u>
Assets					
Cash and Investments	\$ 1,634,821	\$ 1,364,636	19.80 %	\$ 1,322,591	3.18 %
Other assets	<u>20,515</u>	<u>24,765</u>	(17.16)%	<u>13,040</u>	89.92 %
Total assets	1,655,336	1,389,401	19.14 %	1,335,631	4.03 %
Liabilities					
Total liabilities	<u>335,329</u>	<u>356,644</u>	(5.98)%	<u>396,124</u>	(9.97)%
	<u>335,329</u>	<u>356,644</u>	(5.98)%	<u>396,124</u>	(9.97)%
Net Position					
Restricted	50,000	-	100.00 %	-	- %
Unrestricted	<u>1,270,007</u>	<u>1,032,757</u>	22.97 %	<u>939,507</u>	9.93 %
Total net position	<u>\$ 1,320,007</u>	<u>\$ 1,032,757</u>	27.81 %	<u>\$ 939,507</u>	9.93 %

As of December 31, 2011, total assets increased by 19.1% from \$1,389,401 to \$1,655,336, compared to an increase of 4% from 2009 to 2010. This is due to a 19.4% increase in contributions and a 10.9% decrease in overall claims. A rate increase for 2011 coupled with an increase in the taxable wage base from \$10,000 in 2010 to \$13,000 in 2011 resulted in an overall increase in contributions of \$164,577, accounting for a large portion of the increase in total assets.

As of December 31, 2011, total current liabilities decreased by 6% from \$356,644 to \$335,329 compared with a decrease of 10% from 2009 to 2010. This decrease of \$21,315 in 2011 is primarily due to reduction in fourth quarter claims paid from 2010 to 2011, recorded as a payable to the Vermont Department of Labor. In addition to claims, contributions paid in advance for the ensuing year decreased from 2010 to 2011. These receipts for contributions paid in advance will not be recognized as revenue until 2012 and are therefore classified as a liability at December 31, 2011.

VLCT Unemployment Insurance Trust, Inc.

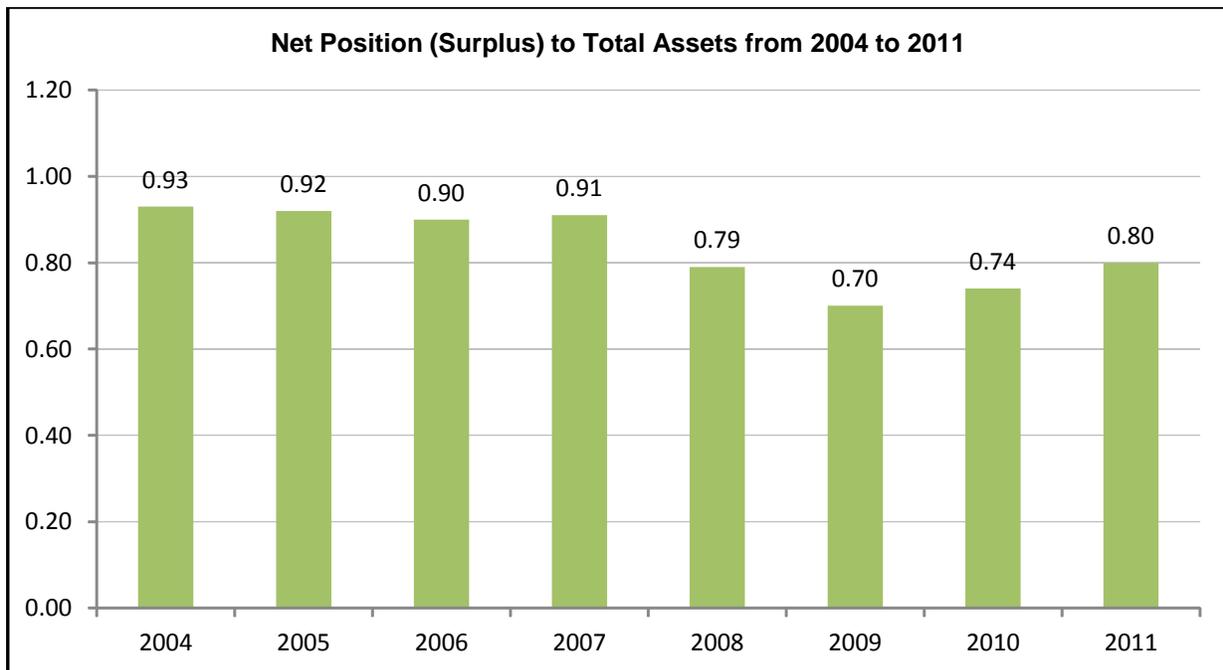
Management's Discussion and Analysis (Continued)

Results and Analysis - Continued

Net position increased in 2011 by 27.8% or \$287,250 from 2010. This compares to an increase of \$93,250 or 10% in 2010. The increase in 2011 was primarily the result of a decrease in claim payments of \$81,581 or 10.9% combined with an increase in contributions of \$164,577 or 19.4%. The ratio of net position to total assets increased from 74.3% in 2010 to 79.7% in 2011, raising the amount of surplus the Trust maintains to protect the program from unanticipated increases in claims or adverse market performance.

As can be seen in the following chart, net position or surplus as a ratio to total assets has been impacted by the recent recession but has seen improvement over the past three years. A higher ratio is preferable because it provides more of a cushion against unexpected losses, poor investment returns, or operating deficits from other revenue shortfalls or unexpected costs.

Because the Trust is fully self-insured and has no reinsurance to fall back on, a positive net position amount is particularly important for financial stability as shown by the trend leading up to the 2008 recession in the chart below. Though the Trust's ratio was over 90% in 2007, the large increase in claims combined with lower investment income resulting from the economic downturn depleted the Trust's net position significantly. Without that "reserve" from a substantial net position, the resulting hit on the Trust could have been catastrophic, resulting in some very significant rate increases to recoup the losses.



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 position:

	<u>December</u> <u>31, 2011</u>	<u>December</u> <u>31, 2010</u>	<u>Percentage</u> <u>Change</u>	<u>December</u> <u>31, 2009</u>	<u>Percentage</u> <u>Change</u>
Operating Revenues					
Fund contributions	\$ 1,013,129	\$ 848,552	19.40 %	\$ 632,440	34.17 %
Management fees	<u>52,000</u>	<u>52,000</u>	-	<u>51,750</u>	0.48 %
Total operating revenues	<u>1,065,129</u>	<u>900,552</u>	18.28 %	<u>684,190</u>	31.62 %
Operating Expenses					
Claims benefit payments	670,015	751,596	(10.85)%	825,444	(8.95)%
Operating expenses	<u>164,719</u>	<u>156,768</u>	5.07 %	<u>168,213</u>	(6.80)%
Total operating expenses	<u>834,734</u>	<u>908,364</u>	(8.11)%	<u>993,657</u>	(8.58)%
Operating income (loss)	<u>230,395</u>	<u>(7,812)</u>	(3,049.24)%	<u>(309,467)</u>	(97.48)%
Non-Operating Revenues					
Investment income, net of fees	<u>56,855</u>	<u>101,062</u>	(43.74)%	<u>168,367</u>	(39.98)%
Change in net position	287,250	93,250	208.04 %	(141,100)	(166.09)%
Net Position, Beginning of Year	<u>1,032,757</u>	<u>939,507</u>	9.93 %	<u>1,080,607</u>	(13.06)%
Net Position, End of Year	<u>\$ 1,320,007</u>	<u>\$ 1,032,757</u>	27.81 %	<u>\$ 939,507</u>	9.93 %

The Trust had an operating income of \$230,395 in 2011 compared with an operating loss of \$7,812 for 2010. The combination of the \$164,577 increase in contributions and an \$81,581 decrease in claims expenses resulted in this positive performance in 2011. In 2010, contributions were almost sufficient to fully cover claims and administrative expenses, improving operations significantly with a rate increase intended to cover the higher level of claims after a \$309,467 operating loss in 2009.

The increase in contributions for 2011 reflected a rate increase of 2.8% that was intended to cover 2011 projected claims based on 2010 benefits, the worst claim year in the prior 12 year period. In addition to the overall rate increase, the taxable wage base increased from \$10,000 to \$13,000. Had the wage base not increased, a rate increase of approximately 27% would have been necessary. No rate credit was recommended for 2011.

Claim benefit payments decreased with the improved economy. As indicated, contributions anticipated worst case benefit disbursements and as unemployment decreased, payments did as well, resulting in a 10.9% drop in claims benefit payments from 2010 to 2011.

VLCT Unemployment Insurance Trust, Inc.

Management's Discussion and Analysis (Continued)

Results and Analysis - Continued

Operating expenses for the year increased from 2010 by \$7,951 or 5.1%, primarily due to an increase in the cost for VLCT services from an increase in the FTE allocation. The allocation of staff resulted in a slightly higher portion to the Trust than in the prior year.

Net investment earnings for 2011 were \$56,855 compared with net investment earnings of \$101,062 in 2010. Out of this total, there was a net increase in the fair value of investments (net realized and net unrealized) of \$19,076 in 2011 compared with \$65,145 in 2010. The balance of the year to year change in net investment earnings for both years is in interest and dividends earned. Clearly the market and economic conditions were the drivers of this drop in earnings from 2010 to 2011.

The asset allocation at the end of 2011 is comprised of 27% equities, 70% fixed income, and 3% cash and equivalents. This compares with 29% equities, 67.3% fixed income, and 3.7% cash and equivalents at the end of 2010, and with 24.8% equities, 67.4% fixed income, and 7.8% cash and equivalents at the end of 2009. Weighted returns at year end 2011 were 7.72% for the fixed income portfolio (compared with the Barclays Capital Aggregate market index of 7.84%, while the equity portfolio showed weighted returns of -0.41% (compared with the S&P 500 market index of 2.11% and Russell 3000 market index of 1.03%). Although equities did not perform well against the benchmark as measured over the year, an analysis of both three and five-year periods show them outperforming both benchmarks.

Net investment earnings of \$56,855 added to operating surplus of \$230,395 result in the change in net position of \$287,250 for 2011.

VLCT Unemployment Insurance Trust, Inc.

Management's Discussion and Analysis (Continued)

Results and Analysis - Continued

The following table summarizes budgeted revenues and expenses versus actual results, showing the variance from budgeted for the year ended December 31, 2011:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating Revenues			
Fund contributions	\$ 1,013,125	\$ 1,013,129	\$ 4
Management fees	<u>52,000</u>	<u>52,000</u>	<u>-</u>
Total operating revenues	1,065,125	1,065,129	4
Operating Expenses			
Claims benefit payments	926,668	670,015	256,653
Operating expenses - all cost centers	<u>178,974</u>	<u>164,719</u>	<u>14,255</u>
Total operating expenses	<u>1,105,642</u>	<u>834,734</u>	<u>270,908</u>
Operating excess (deficiency) of revenues over expenditures	(40,517)	230,395	270,912
Non-operating - investment income (loss)	<u>(3,850)</u>	<u>56,855</u>	<u>60,705</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (44,367)</u>	<u>\$ 287,250</u>	<u>\$ 331,617</u>

As shown in this budget analysis, the operating surplus of \$230,395 was significantly more than the operating loss of \$40,517 that was anticipated when the 2011 budget was constructed. The variance in actual operating surplus to budget is attributable to claim benefit payments being \$256,653 less than budgeted and operating expenses below the budgeted amount by \$14,255.

Actual investment earnings (of which only investment fees are budgeted) produced net investment income of \$56,855, increasing the overall variance over budget to \$331,617.

To determine member contributions or premiums, the Trust has used 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, the prior three years, 2008 through 2010, trended upward with 2010 the worst benefit payout year. 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 in 2011 or 2010 due to projected deficits during budget development in 2010 and 2009, respectively.

Administrative operating expenses were lower than budgeted in 2011 primarily due to a decrease in VLCT services which were less than budgeted due to administrative staff vacancies.

VLCT Unemployment Insurance Trust, Inc.

Management's Discussion and Analysis (Continued)

Results and Analysis - Continued

Claims benefit payments were budgeted based on a maximum benefit ratio calculated from trend data for the period 1998 to 2010, and applied to the 2010 taxable wage base of \$46.56 million. Actual benefit payments for every quarter in 2011 were lower than in the prior year, starting at 15.8% less for the first quarter and ending the year 10.9% lower.

Outlook and Economic Factors

Unemployment rates in Vermont continue to be below 6%. The Trust has seen its claims drop year over year. This trend of stable or dropping claims began in the second quarter of 2010.

Rates for 2012 are going down by an average of 12% on a projected payroll of \$55.8 million. When taking into account the increase in the base wage from \$13,000 to \$16,000, the effective rate is an increase of 4.5%.

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

Year	Average Rate	Projected Payroll
2012	1.90%	\$55.8 million
2011	2.18%	\$46.6 million
2010	2.15%	\$39.6 million
2009	2.03%	\$32.5 million

The 2012 actuarial study projected a net gain for the Trust and recommended granting a contribution rate credit. The Board voted to provide a contribution rate credit in the amount of \$50,000, which effectively cancelled out the "increase" in rates.

Claims have stabilized and are still dropping from their 2009-2010 highs, meaning our rates should be adequate to cover claims in 2012. This should allow the Trust to continue rebuilding its surplus and 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 Position

	As of December 31,	
	<u>2011</u>	<u>2010</u>
Assets		
Cash and cash equivalents	\$ 486,348	\$ 281,035
Investments, at fair value	828,985	757,751
Mutual funds, at fair value	319,488	325,850
Accrued investment income	9,657	9,264
Prepaid expenses	1,317	1,551
Due from VLCT	<u>9,541</u>	<u>13,950</u>
 Total Assets	 <u>\$ 1,655,336</u>	 <u>\$ 1,389,401</u>
 Liabilities and Net Position		
Liabilities		
Due to Vermont Department of Labor	\$ 153,408	\$ 175,913
Unearned income	172,371	180,013
Accounts payable	<u>9,550</u>	<u>718</u>
Total liabilities	335,329	356,644
 Net Position		
Restricted	50,000	-
Unrestricted	<u>1,270,007</u>	<u>1,032,757</u>
Total net position	<u>1,320,007</u>	<u>1,032,757</u>
 Total Liabilities and Net Position	 <u>\$ 1,655,336</u>	 <u>\$ 1,389,401</u>

See accompanying notes to the financial statements.

VLCT Unemployment Insurance Trust, Inc.

Statements of Revenues, Expenses, and Changes in Net Position

	Years ended December 31,	
	2011	2010
Operating Revenues		
Member contributions	\$ 1,013,129	\$ 848,552
Management fees	52,000	52,000
Total operating revenues	1,065,129	900,552
 Operating Expenses		
Claims benefit payments	670,015	751,596
General and administrative expenses	164,719	156,768
Total operating expenses	834,734	908,364
 Operating income (loss)	230,395	(7,812)
 Non-Operating Revenues (Expenses)		
Investment income	40,806	39,360
Investment income - net realized gains and change in fair value	19,076	65,145
Investment management fees	(2,100)	(2,040)
Investment consulting fees	(927)	(1,403)
 Net non-operating revenues	56,855	101,062
 Change in Net Position	287,250	93,250
 Net Position, Beginning of Year	1,032,757	939,507
 Net Position, End of Year	\$ 1,320,007	\$ 1,032,757

See accompanying notes to the financial statements.

VLCT Unemployment Insurance Trust, Inc.

Statements of Cash Flows

	Years ended December 31,	
	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities		
Receipts for member contributions	\$ 1,005,487	\$ 860,240
Receipts for management fees	52,000	52,000
Payments for claims	(692,520)	(793,751)
Payments for general and administrative expenses	<u>(151,244)</u>	<u>(178,161)</u>
Net cash provided by (used in) operating activities	213,723	(59,672)
Cash Flows from Investing Activities		
Receipts of interest income	40,413	40,015
Investment management fees	(2,100)	(2,040)
Investment consulting fees	(927)	(1,403)
Purchases of investments	(513,805)	(544,062)
Proceeds of investments	<u>468,009</u>	<u>578,050</u>
Net cash (used in) provided by investing activities	(8,410)	70,560
Net Change in Cash and Cash Equivalents	205,313	10,888
Cash and Cash Equivalents, Beginning of Year	<u>281,035</u>	<u>270,147</u>
Cash and Cash Equivalents, End of Year	<u>\$ 486,348</u>	<u>\$ 281,035</u>
Reconciliation of Operating Income to Net Cash Used In Operating Activities		
Operating income (loss)	\$ 230,395	\$ (7,812)
Changes in assets and liabilities:		
Prepaid expenses	234	1,570
Due from VLCT	4,409	(13,950)
Due to Vermont Department of Labor	(22,505)	(42,155)
Unearned income	(7,642)	11,688
Accounts payable	<u>8,832</u>	<u>(9,013)</u>
Net Cash Provided By (Used In) Operating Activities	<u>\$ 213,723</u>	<u>\$ (59,672)</u>

See accompanying notes to the financial statements.

VLCT Unemployment Insurance Trust, Inc.

Notes to the Financial Statements

Years ended December 31, 2011 and 2010

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 members as of December 31, 2011 and 2010.

Note B - Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Trust 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 Trust follows all applicable GASB guidance. The Trust uses the economic resources measurement focus and the accrual basis of accounting and is accounted for as a proprietary enterprise fund.

Risks and Uncertainties

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 which impact claims benefit payments; (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.

Subsequent Events

The Trust has evaluated subsequent events for disclosure and recognition through April 26, 2012, the date on which these financial statements were available to be issued.

VLCT Unemployment Insurance Trust, Inc.

Notes to Financial Statements (Continued)

Note B - Summary of Significant Accounting Policies (Continued)

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 estimate a target net position to protect against potential future financial losses. 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. As more fully described in Note E, the target net position protects against potential financial losses in the event of inadequate rates charged to members due to unexpectedly high claims and/or negative investment income.

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, a quarter in arrears. Claims benefits payable for claims incurred in the last quarter of December 31, 2011 and 2010 are classified as Due to Vermont Department of Labor on the statements of net position.

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 statements of revenues, 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 prices obtained from a recognized pricing service.

VLCT Unemployment Insurance Trust, Inc.

Notes to Financial Statements (Continued)

Note B - Summary of Significant Accounting Policies (Continued)

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.

The Trust's carrying amount of cash deposits and the bank balance at December 31, 2011 and 2010 were as follows:

	<u>December 31, 2011</u>		<u>December 31, 2010</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	\$ 250,000	\$ 250,000	\$ 250,000	\$ 248,728
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 Trust	<u>236,348</u>	<u>236,371</u>	<u>31,035</u>	<u>-</u>
Total	<u>\$ 486,348</u>	<u>\$ 486,371</u>	<u>\$ 281,035</u>	<u>\$ 248,728</u>

The difference between the book balance and the bank balance is due to reconciling items such as deposits in transit and outstanding checks.

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 errors & omissions 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 \$13,000 (\$10,000 in 2010) 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, 2011 and 2010 for member contributions with coverage effective dates of January 1, 2012 and January 1, 2011, 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 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.

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.

VLCT Unemployment Insurance Trust, Inc.

Notes to Financial Statements (Continued)

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.
- *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, 2011 and 2010.
- *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 Trust's investment policy limits the average effective duration to 8 years.

VLCT Unemployment Insurance Trust, Inc.

Notes to Financial Statements (Continued)

Note C - Investments (Continued)

The following table provides a summary of the fair value of the Trust's investment portfolio by contractual maturity. 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.

	December 31, 2011				Total
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	
U.S. Treasuries	\$ 44,108	\$ 26,289	\$ 9,708	\$ -	\$ 80,105
U.S. Agencies	-	-	-	68,182	68,182
U.S. Agency MBS	-	4,814	7,868	10,598	23,280
Corporate Bonds	67,316	68,330	170,988	318,287	624,921
Municipal Bonds	-	-	-	32,497	32,497
Total	<u>\$ 111,424</u>	<u>\$ 99,433</u>	<u>\$ 188,564</u>	<u>\$ 429,564</u>	<u>\$ 828,985</u>

The table below outlines the Standard and Poor's credit ratings of the Trust's investment holdings as of December 31, 2011:

	U.S. Treasuries	U.S. Agencies	U.S. Agency MBS	Corporate Bonds	Municipal Bonds	Total
AAA	\$ -	\$ 32,124	\$ -	\$ 75,710	\$ 9,818	\$ 117,652
AA	-	-	-	10,164	6,121	16,285
A	-	-	-	84,213	5,523	89,736
AA+	80,105	-	23,280	81,303	5,515	190,203
A+	-	-	-	54,510	-	54,510
AA-	-	-	-	14,827	5,520	20,347
A-	-	-	-	114,591	-	114,591
BBB	-	-	-	62,999	-	62,999
BBB+	-	-	-	83,760	-	83,760
BBB-	-	-	-	23,219	-	23,219
Not Rated	-	36,058	-	19,625	-	55,683
Total	<u>\$ 80,105</u>	<u>\$ 68,182</u>	<u>\$ 23,280</u>	<u>\$ 624,921</u>	<u>\$ 32,497</u>	<u>\$ 828,985</u>

VLCT Unemployment Insurance Trust, Inc.

Notes to Financial Statements (Continued)

Note C - 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 investments held by the Trust as of December 31, 2011:

	<u>Fair Value</u>	<u>Effective Duration</u>
U.S. Treasuries	\$ 80,105	2.68
U.S. Agencies	68,182	4.69
U.S. Agency MBS	23,280	1.16
Corporate Bonds	624,921	6.47
Municipal Bonds	<u>32,497</u>	12.88
Total	<u>\$ 828,985</u>	5.85

The average effective duration of the investment portfolio as of December 31, 2011 and 2010, was 5.85 and 5.47 years, respectively.

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

<u>Classification</u>	<u>2011 Fair Value</u>	<u>2010 Fair Value</u>
Large Cap Blend	\$ 51,471	\$ 57,916
Large Cap Growth	47,155	49,730
Large Cap Value	54,593	55,788
Mid Cap Growth	51,768	52,402
Mid Cap Value	56,974	53,823
Small Cap Blend	<u>57,527</u>	<u>56,191</u>
Total	<u>\$ 319,488</u>	<u>\$ 325,850</u>

VLCT Unemployment Insurance Trust, Inc.

Notes to Financial Statements (Continued)

Note C - Investments (Continued)

Net realized gains on the sale of investments were \$8,153 and net unrealized gains attributable to the change in fair value of investments were \$10,923 for the year ended December 31, 2011. 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.

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

For the years ended December 31, 2011 and 2010, expenses allocated to the Trust were \$95,333 and \$84,125, respectively. These costs are included as a component of general and administrative expenses on the statements of revenues, expenses and changes in net position.

VLCT Unemployment Insurance Trust, Inc.

Notes to Financial Statements (Continued)

Note E - Net Position

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 decided to no longer declare a portion of net position as designated for future claims liabilities.

As of December 31, 2011, the Trust has established a target net position of \$1,060,325 based on an actuarial assessment of variability of net income. Management recorded the target net position at the 99.9% confidence level as of December 31, 2011. The purpose of the net position target is to protect against potential financial losses in the event of unexpected high claims and/or possible poor investment returns. The net position target will be adjusted each year to reflect the most recent financial results. As of December 31, 2010, the Trust established a target net position of \$1,193,943.

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, 2011 and 2010. During 2011, the Board approved \$50,000 of contribution credits to be allocated to individual members upon renewal in 2012. This amount is restricted on the statement of net position as of December 31, 2011.

VLCT Unemployment Insurance Trust, Inc.

Schedule of Revenues and Expenses - Budgetary Basis

December 31, 2011

(Unaudited)

	Budget	Actual	Variance Favorable / (Unfavorable)
Revenues			
Contributions	\$ 1,013,125	\$ 1,013,129	\$ 4
Management fees	52,000	52,000	-
Investment income - interest and dividends	-	40,806	40,806
Investment income - change in fair value	-	19,076	19,076
Total revenues	<u>1,065,125</u>	<u>1,125,011</u>	<u>59,886</u>
Administrative Expenses			
Claims benefit payments	926,668	670,015	256,653
VLCT services	95,811	87,094	8,717
Claims services	35,000	32,878	2,122
Consulting	500	-	500
Legal services	5,000	5,225	(225)
Audit and accounting services	8,500	7,924	576
Actuarial services	7,000	10,512	(3,512)
Bank costs	1,750	1,931	(181)
Investment consulting fees	1,650	927	723
Investment management fees	2,200	2,100	100
Insurance	4,500	1,495	3,005
Board of Directors	5,500	6,961	(1,461)
Staff travel and training	1,550	430	1,120
Vehicle expenses	500	68	432
Office supplies and equipments	100	-	100
Printing	500	-	500
Member training	100	-	100
Promotionals	100	-	100
Dues and subscriptions	1,250	1,100	150
Communications	100	-	100
Town Fair	100	861	(761)
Miscellaneous	100	1	99
Total administrative expenses	<u>1,098,479</u>	<u>829,522</u>	<u>268,957</u>
Member Relations			
VLCT services	9,063	8,239	824
Staff travel and training	100	-	100
Vehicle expense	1,000	-	1,000
Office supplies and equipments	50	-	50
Printing	100	-	100
Member training	100	-	100
Promotionals	300	-	300
Dues and subscriptions	100	-	100
Communications	100	-	100
Miscellaneous	100	-	100
Total member relations	<u>11,013</u>	<u>8,239</u>	<u>2,774</u>
Total expenses	<u>1,109,492</u>	<u>837,761</u>	<u>271,731</u>
Excess (Deficiency) of Revenues over Expenses	<u>\$ (44,367)</u>	<u>\$ 287,250</u>	<u>\$ 331,617</u>

See accompanying notes to the financial statements.