VLCT Property and Casualty Intermunicipal Fund, Inc.

Audited Financial Statements
with Supplementary Information

Years ended December 31, 2013 and 2012
with Report of Independent Auditors

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Years ended December 31, 2013 and 2012

Contents

JOHNSON LAMBERT LLP

Report of Independent Auditors

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

We have audited the accompanying financial statements of VLCT Property and Casualty Intermunicipal Fund, Inc. ("the Fund"), which comprise the statements of net position as of December 31, 2013 and 2012, and the related statements of contributions, expenses, and changes in net position and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
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 of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of VLCT Property and Casualty Intermunicipal Fund, Inc. as of December 31, 2013 and 2012 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The accounting principles generally accepted in the United States require that Management's Discussion and Analysis on pages 4 - 19 and the accompanying supplementary schedules listed on pages 39 - 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers 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 schedules in accordance with auditing standards generally accepted in the United States of America, 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.

Other Information

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

Johnson Lambert LLP

Burlington, Vermont
March 21, 2014

Vermont firm registration: 092-0000267

VLCT Property and Casualty Intermunicipal Fund, Inc.

Management's Discussion and Analysis

December 31, 2013 and 2012

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, 2013, 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 2013 by $23,125,797. Of this amount, $22,625,797 is unrestricted, and $500,000 has been restricted by the Board. Total liabilities in 2013 represent 56% of total assets, compared to 53% at the end of 2012 and 44% at the end of 2011. Less adverse development and an increase in rates helped to stabilize this ratio between 2012 and 2013, after a significant decrease in 2012. The restricted amount of total assets (restricted net position) represents $500,000 of premium credits to be applied to the 2014 renewal. The board has also designated $3,809,762 for the safety margin by recommendation of the Fund's actuary in order to maintain a 99% confidence level in the adequacy of the non-case reserves (IBNR-incurred but not reported). The board designated amounts are included within the total unrestricted net position.

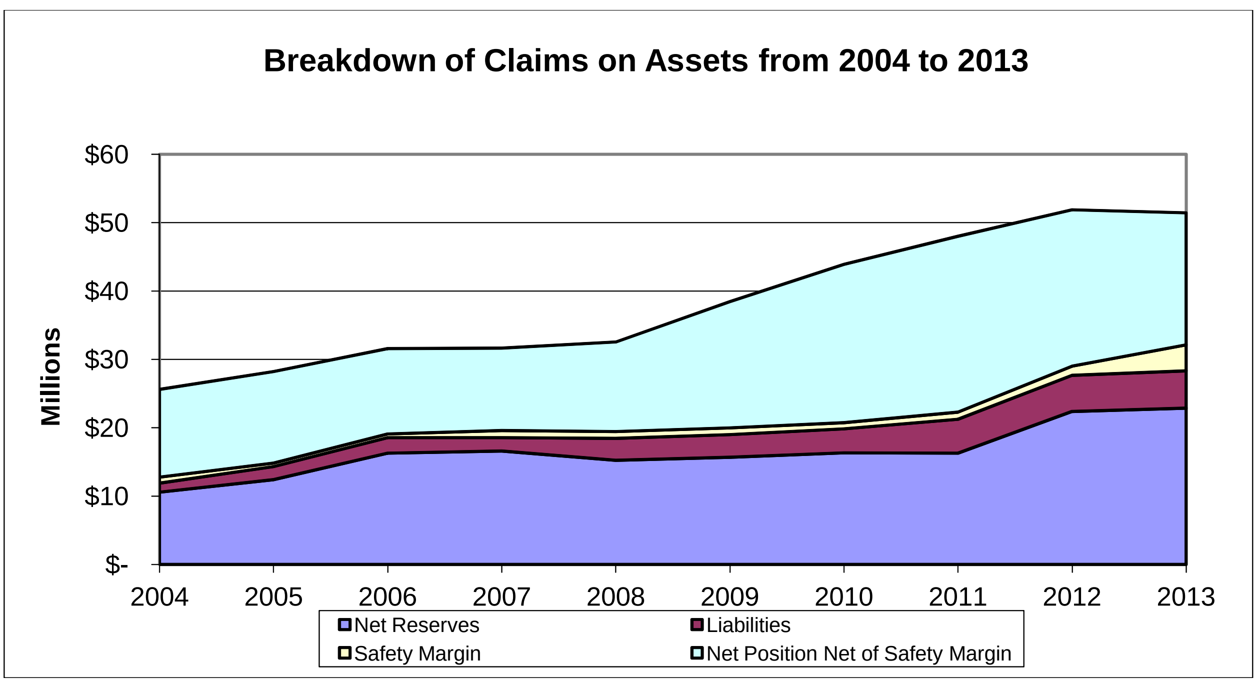
- In 2012, assets exceeded liabilities by $24,218,087, of which $23,018,087 was unrestricted as of the end of the year. In 2011, assets exceeded liabilities by $26,771,878, of which $25,271,878 was unrestricted as of the end of the year. Restricted funds for 2012 and 2011 were $1,200,000 and $1,500,000, respectively. Restricted net position for 2012 consisted of $1,000,000 of premium credits to be applied to the 2013 renewal and $200,000 to fund the member safety grant program in 2013. Restricted net position for 2011 consisted of $1,250,000 of premium credits to be applied to the 2012 renewal and $250,000 to fund the member safety grant program in 2012. The Board also designated $1,339,360 and $1,045,499 of unrestricted net position for the safety margin allocation for 2012 and 2011, respectively.

- Unrestricted net position in 2013 decreased by $392,290 or almost 2% from 2012. The ratio of unrestricted net position to total assets decreased to 43% in 2013 from 44% in 2012, with an increase in assets of $585,455 offset by a $1,677,745 increase in liabilities. By comparison, 2012 reflected an increase in assets of $3,874,016 offset with a $6,427,807 increase in liabilities, resulting in a large decrease in unrestricted net position ratio from 53% to 44%. Adverse claim development for prior years continued to be a drain on net position but significantly less so in 2013 than in 2012. All of it occurred during the first half of the year, offset by positive development in the second half. As of December 31, 2013, the change in net ultimate incurred losses for prior years (not including safety margin) is an increase of $2,468,228. This is 2% of the total ultimate incurred ($128 million in net ultimate incurred estimated by the actuary for 1993-2012 claims). As of December 31, 2012, the change in net ultimate incurred losses (not including safety margin) was an increase of $5,026,408, 4% of the total net ultimate incurred ($116 million net ultimate incurred estimated by the actuary).

Highlights (Continued)

- Net case and non case (IBNR) reserves as of December 31, 2013, increased by 4% or $842,467 from December 31, 2012, from $20,921,038 to $21,763,505, driven primarily by adverse development of prior year workers' compensation claims. By comparison, net case and non case (IBNR) reserves as of December 31, 2012 increased by 39% or $5,820,201 from 2011, from $15,100,837 to $20,921,038. The claims expense reserve and the workers' compensation state assessment reserve increased 45% over last year, from $1,462,818 in 2012 to $2,126,535 in 2013. The increase in the prior year was 25%. The increase in 2013 from 2012 was primarily due to a 39% per claim cost increase resulting from a more accurate allocation of costs related to the claim operation. From 2011 to 2012, the increase was primarily due to a 17% per claim cost increase reflecting added costs from the software upgrade.

The graph below measures the trend of the breakdown for each type of obligation (liabilities, reserves, safety margin and unrestricted net position) against 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 remained fairly stable between 2006 and 2011, allowing the Fund to strengthen its net position. Adverse claim development in 2012 and 2013 increased net reserves and decreased net position, but as is shown in the graph, there was an increase in total assets (primarily due to strong investment performance in 2012). A strong unrestricted net position allowed the Fund to absorb the hit on surplus and still maintain its fiscal stability. The safety margin has been discounted for future investment earnings at a rate of 3.5% for 2008-2013.



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 coverage years. The remaining one, 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

The first cost center is shown under the title of "reinsurance expenses" in the financial statements presented in this report. The next six cost centers, administration through claims, are combined and included under the title of "general and administrative expenses" in the financial statements.

The annual financial report consists of four parts:

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

Overview of the Fund's Financial Statements (Continued)

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, 2013 and 2012 and financial developments during 2013 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 in the insurance industry as "surplus".

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 and member distributions a non operating expense. Despite this categorization, investment income and member distributions are integral to insurance company operations. The net result of operations is known as 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. Net position is made up of both restricted and unrestricted equity. Restricted net position is that portion that is limited for a particular use by action of the governing board. All remaining equity is considered unrestricted net position.

The statement of cash flows outlines the cash flows 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 other information 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 other information is presented for purposes of additional analysis and therefore is not a required part of the basic financial statements.

Overview of the Fund'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. In the insurance industry "surplus" is used for the accounting term "net position", "net assets" or "fund balance". 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 2013 with a comparison to 2012 and 2011, and shows the percentage change. Unrestricted net position includes the safety margin, that portion that is designated to ensure that the Fund has enough reserve to meet the 99% confidence level (90% for 2012 and 2011) for protection from adverse claim development or catastrophic events that could negatively impact financial results.

Financial Analysis

	December 31, 2013	December 31, 2012	Percentage Change	December 31, 2011	Percentage Change
Cash and investments	$ 49,904,039	$ 49,221,039	1.4 %	$ 45,379,698	8.5 %
Other assets	2,567,375	2,664,920	(3.7)%	2,632,245	1.2 %
Total assets	52,471,414	51,885,959	1.1 %	48,011,943	8.1 %
Current liabilities	5,455,577	5,284,016	3.2 %	4,966,913	6.4 %
Noncurrent liabilities	23,890,040	22,383,856	6.7 %	16,273,152	37.6 %
Total liabilities	29,345,617	27,667,872	6.1 %	21,240,065	30.3 %
Net position					
Restricted	500,000	1,200,000	(58.3)%	1,500,000	(20.0)%
Unrestricted	22,625,797	23,018,087	(1.7)%	25,271,878	(8.9)%
Total net position	$ 23,125,797	$ 24,218,087	(4.5)%	$ 26,771,878	(9.5)%

As of December 31, 2013, total assets increased by 1% from $51,885,959 to $52,471,414, compared to an increase of 8% from 2011 to 2012. Investment performance and an increase in receivables from reinsurance and subrogated claims account for the increase in total assets during 2013. Positive investment performance accounts for the increase in total assets during 2012.

As of December 31, 2013, current liabilities increased by 3% from $5,284,016 to $5,455,577. Current liabilities in 2012 increased 6% over 2011. The increase in 2013 is primarily due to an 11% increase in member contributions paid in advance of the January 1, 2014 due date. Receipts for contributions paid in advance are not recognized as revenue until the ensuing year and are therefore a liability to the Fund. The increase in 2012 reflected an 11% increase in member contributions for contributions paid in advance for 2013.

Results and Analysis (Continued)

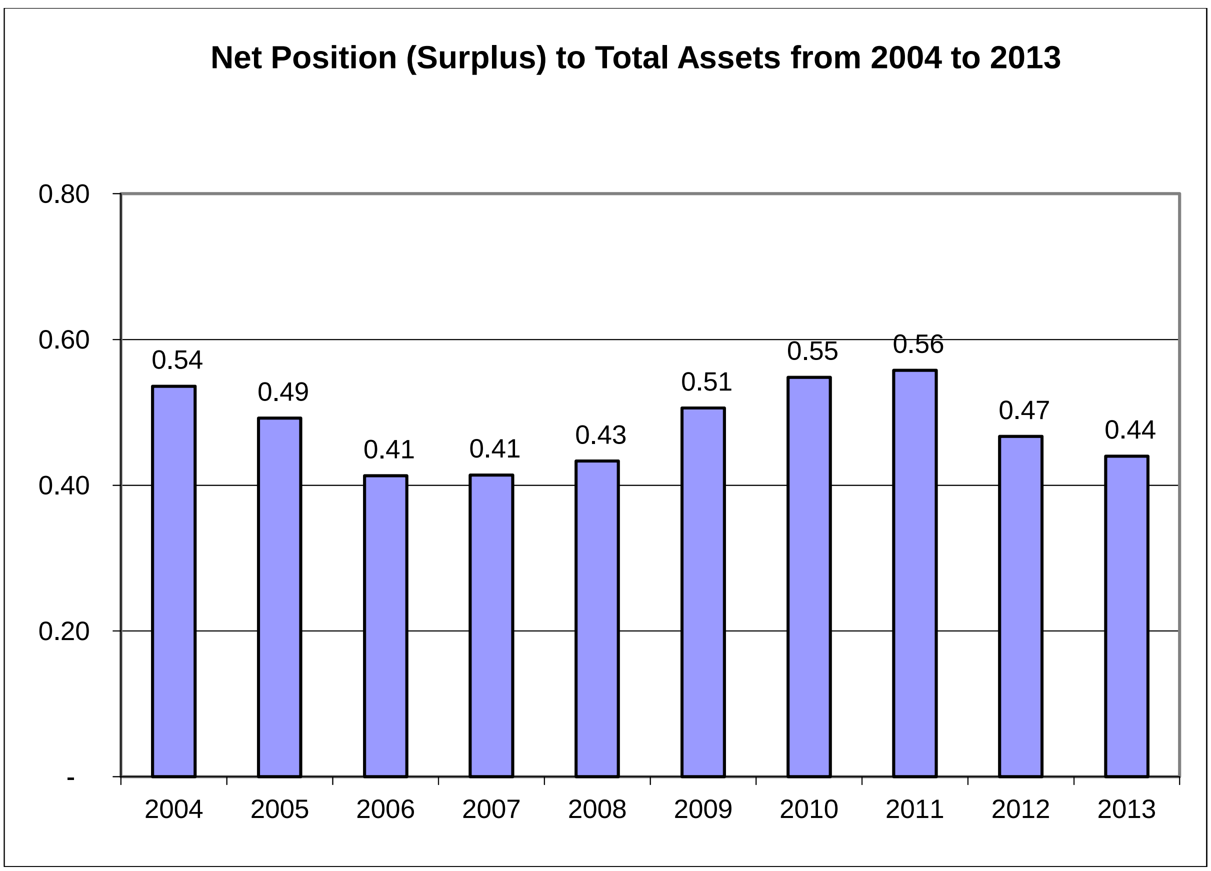
Growth in non-current liabilities (7% in 2013 and 38% in 2012) is driven by net reserves which increased by 4% from 2012 to 2013, compared to a 39% increase from 2011 to 2012. The 2013 increase reflects adverse development primarily in prior years' workers' compensation claims, as was the case in 2012 to a much greater degree. Total case and non-case (IBNR) reserves are broken out by fund year in the following table:

Fund Year	12/31/2013	12/31/2012	12/31/2011
1993	$ 141,280	$ 6,174	$ -
1994	-	-	35,073
1995	-	-	13,337
1998	3,863	-	-
1999	(11,221)	48,729	57,951
2000	-	-	-
2001	164,389	180,624	298,158
2002	203,239	243,445	234,637
2003	159,394	222,098	222,579
2004	126,512	157,857	160,223
2005	172,170	301,279	318,209
2006	227,051	557,659	572,584
2007	645,803	740,186	834,963
2008	1,733,314	2,155,636	1,824,429
2009	1,221,277	2,131,959	2,176,981
2010	1,817,362	3,330,509	3,411,248
2011	3,291,091	3,751,544	4,940,465
2012	5,112,997	7,093,339	-
2013	6,754,984	-	-
Totals	$ 21,763,505	$ 20,921,038	$ 15,100,837

As outlined in the Highlights section, total net position at year end was $23,125,797 down from $24,218,087 at the same time last year. The 2012 to 2013 decrease of $1,092,290 is primarily due to the adverse claim development in prior years' workers' compensation claims during 2013, compared with a decrease of $2,553,791 from 2011 to 2012.

Results and Analysis (Continued)

A look at the total net position to total assets ratio allows us to measure 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 2013 ratio of 0.44 means that almost 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 a high of 0.56 in 2011. Improved investment earnings played a large part in the increase from 0.43 in 2008 to 0.51 in 2009. In 2010 and 2011 the upward trend continued from both positive earnings and operating surpluses. The 2012 and 2013 operating losses proved that strong net position could allow the Fund to weather adverse claim development without materially impacting its fiscal strength. 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 2013 with a comparison to 2012 and 2011, showing the percentage changes:

	2013	2012	Percentage Change	2011	Percentage Change
Fund contributions	$ 20,465,452	$ 18,526,721	10.5 %	$ 17,550,963	5.6 %
Other revenues	39,446	15,750	150.5 %	46,163	(65.9)%
Total operating revenues	20,504,898	18,542,471	10.6	17,597,126	5.4 %
Operating expenses:					
Provision for losses and loss adjustment expenses	13,033,689	15,098,797	(13.7)%	9,669,523	56.1 %
Broker fees	145,000	123,787	17.1 %	146,348	(15.4)%
Reinsurance expenses	3,940,030	3,893,071	1.2 %	3,065,166	27.0 %
General and administrative expenses	4,191,589	3,989,863	5.1 %	3,577,819	11.5 %
Total operating expenses	21,310,308	23,105,518	(7.8)	16,458,856	40.4
Operating (loss) income	(805,410)	(4,563,047)	(82.3)%	1,138,270	(500.9)%
Non-operating revenues:					
Investment income	1,531,184	1,511,885	1.3 %	1,496,958	1.0 %
Net (decrease) increase in fair value of investments	(692,645)	1,871,487	(137.0)%	982,949	90.4 %
Investment fees	(125,419)	(124,109)	1.1 %	(118,187)	5.0 %
Total non-operating revenues	713,120	3,259,263	(78.1)%	2,361,720	38.0 %
Member distribution-contribution credit	1,000,000	1,250,007	(20.0)%	792,000	57.8 %
Non-operating (loss) income	(286,880)	2,009,256	(114.3)%	1,569,720	28.0 %
Change in net position	(1,092,290)	(2,553,791)	(57.2)%	2,707,990	(194.3)%
Net position at beginning of year	24,218,087	26,771,878	(9.5)%	24,063,888	11.3 %
Net position at end of year	$ 23,125,797	$ 24,218,087	(4.5)%	$ 26,771,878	(9.5)%

The 2013 year ended with an operating loss (operating revenue under operating expenses before net investment income and distributions) of $805,410 as a result of about $2.4 million in adverse development from prior years' claims. This loss was reduced by net investment earnings of $713,120 for a net loss of $92,290 before distribution of $1 million in member contribution credits, resulting in a decrease in total net position of $1,092,290.

Results and Analysis (Continued)

In contrast, 2012 generated an operating loss of $4,563,047, which was reduced by net investment earnings of $3,259,263 resulting in a net loss before credit distributions of $1,303,784. After applying member contribution credits of $1,250,007, net position decreased by $2,553,791.

The total incurred losses as of December 31, 2013 were $13,033,689. 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 coverage years. The adjustment for all prior coverage years is referred to as positive (favorable) or adverse (unfavorable) development. The Fund incurred losses of $10,565,461 on the 2013 coverage year, and recorded adverse development of $2,468,228 on prior coverage years from 1993 to 2012. The unfavorable development of prior years occurred between 2010 and 2012 with almost half of the 2010 development from two workers' compensation claims, 89% of 2011 development from two workers' compensation claims and 73% of 2012 development from seven workers' compensation claims. In comparison, losses incurred during 2012 totaled $10,072,389 for the 2012 fund year with adverse development of $5,026,408 for prior fund years. This adverse development in 2012 was spread between workers' compensation, general liability and auto liability with 57% attributable to workers' compensation claims. During 2011, the Fund incurred losses of $9,623,411 on the 2011 coverage year and unfavorable development of $46,112 for prior years with most of the development occurring in property, law enforcement and auto liability claims, offset by a significant decrease in development of public officials liability claims.

Investment returns net of fees (including unrealized gains and losses) decreased by $2,546,143 or 78% in 2013 from 2012, compared to an increase of $897,543 or 38% from 2011 to 2012. Interest and dividend income increased 1% in 2013 and in 2012. Market volatility was the primary driver for both the large decrease in 2013 investment performance, as well as the increase in 2012, yielding market losses of $692,645 in 2013, compared to market gains of $1,871,487 in 2012.

The Fund had 78% of its investments in fixed maturity securities. Including the investment in NLC Mutual Insurance Company, the Fund had 22% invested in equity securities. Equities comprise 42% of net position or surplus, well within policy guidelines. The Fund's investment policy target asset allocation is 75% fixed maturity and 25% equities, however, the policy states that "up to 25% of admitted Fund assets, but no more than 50% of Fund Surplus shall be invested in high yield bonds, preferred and common stocks or mutual funds investing in these instruments." The balance must be invested in fixed income securities.

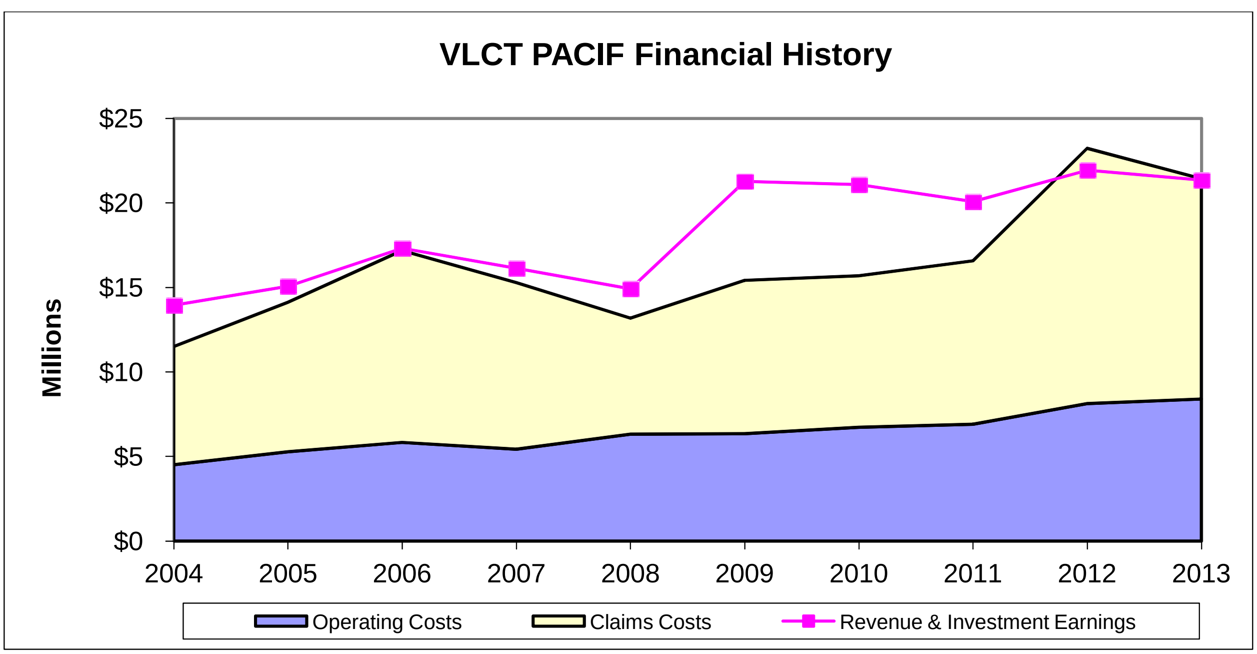
The Fund’s fixed maturity investments had a weighted return net of fees of -2.33% (down from 7% last year), 0.02% above the Fund’s benchmark of -2.35%, which represents the Barclays Capital Aggregate benchmark. Equity investments had a weighted return of 23.9% (up from 15.2% last year), 2.71% below the Fund's benchmark of 26.61%, a blend of component fund specific benchmarks effective July 1, 2013.

Results and Analysis (Continued)

The graph below shows in summary form the trend of the Fund's revenues and expenses. The expenses do not include distributions, which are taken from prior year surpluses (net position). The gap between the revenue trend line and the combined claims and operating costs line represents the surplus or deficit (if the line drops into the area representing costs) each year. A portion of these annual surpluses become distributions to members as determined by the actuary and approved by the Board.

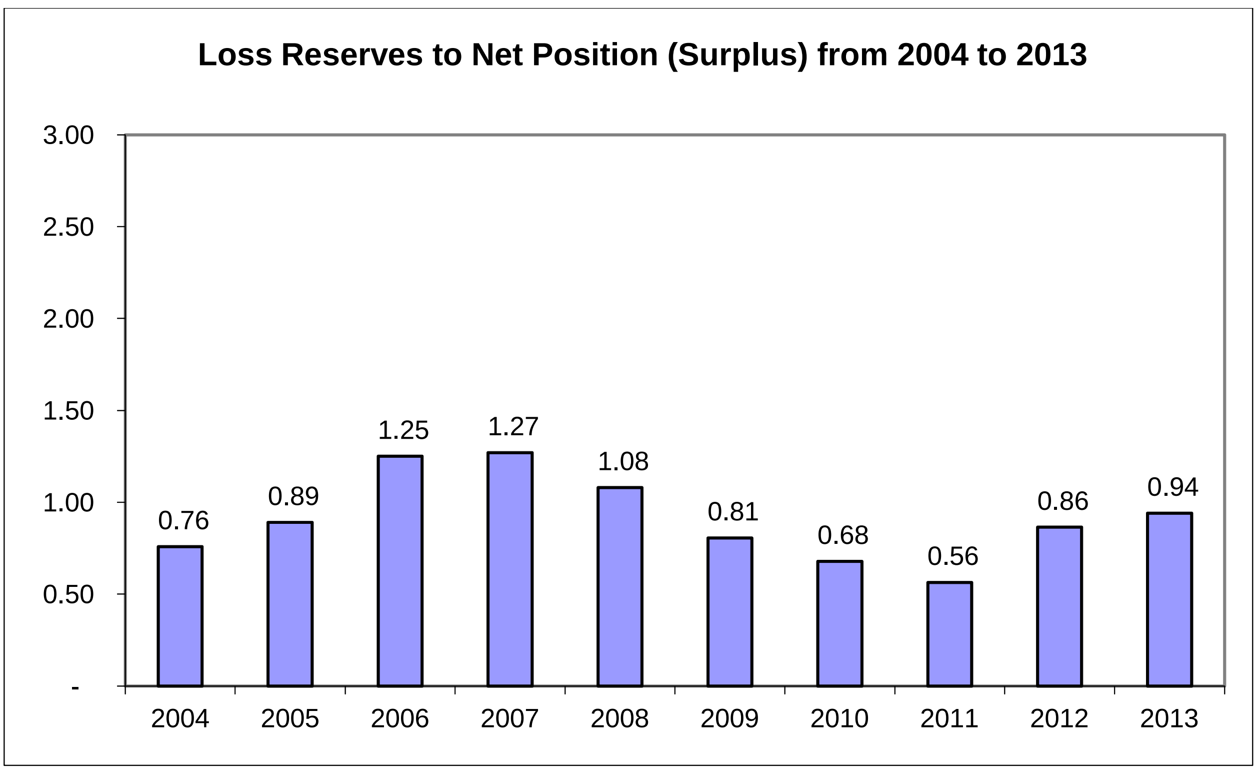
This graph clearly reflects the variability of claims over time with three noteworthy cycles: 2004-2006, 2006-2007 and 2011-2012. Adverse development in 2005 and 2006 explains the first sharp increase in claim costs. Burlington left the Fund at the end of 2006 and at that point losses began a sharp decrease between 2006 and 2007 before a more gradual climb in 2009. The last two-year adverse development trend is clearly shown here from 2011 to 2012 representing more adverse development, primarily with workers' compensation claims for prior years.

Overall, the Fund has been successful in its underwriting, covering costs adequately over time, maintaining a solid surplus or net position and returning that surplus back to its members. Most years during the period of this analysis show surplus growth with the exception of 2006, 2012 and 2013 (where revenue dips into the expense area). The strongest growth occurs between 2009 and 2011 where the distance between the revenue line and the expense area is the greatest.



Results and Analysis (Continued)

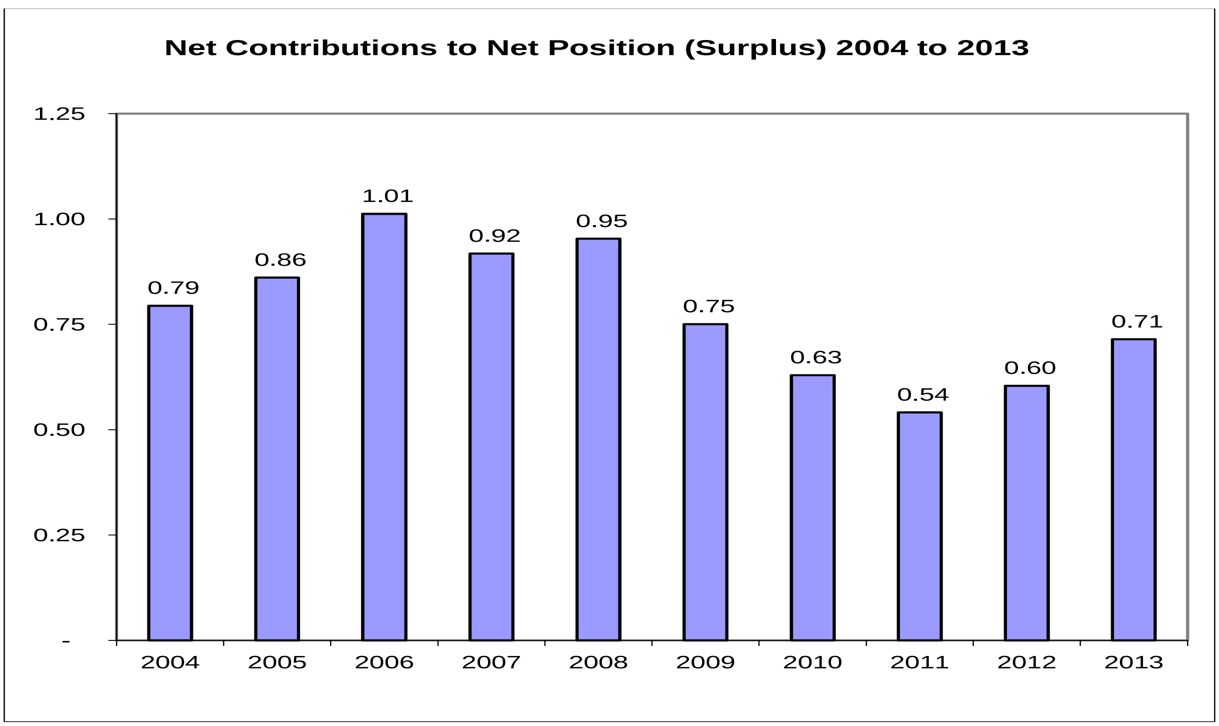
To achieve the appropriate balance between holding or returning surplus, the Fund makes use of a number of indicators to determine the strength of the pool. One way to measure the adequacy of net position or surplus is to analyze the accuracy of its loss development projections. Loss reserves estimates are actuarially determined to enable the Fund to pay claims as they develop over time. Measuring reserves against net position (surplus) gives an indication of the Fund's solvency by looking at whether or not it is able to cover higher than expected losses from 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 those 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 material impacts from adverse (unfavorable) development without catastrophic consequences to its financial strength. Years showing a ratio exceeding 1.0 were years with adverse claim development combined with lower surplus. The 2012 and 2013 ratios, despite significant claims costs, remained under 1.0 mainly due to the surplus developed from positive operating and investment results between 2009 and 2011.

Results and Analysis (Continued)

In addition to analyzing the sufficiency of funds to cover for unexpected deficits and deviations from loss estimation, it is also necessary to determine if net position (surplus) will be adequate if the Fund's pricing doesn't cover potential losses. Ratios of net contributions (contributions less reinsurance) to net position, 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 or surplus 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 has gradually decreased this ratio from a high of 1.01 in 2006 with the ratio benefiting from positive development or low adverse development most years and generally favorable underwriting results. The past two years experienced a sharp increase in this ratio, but it remains well below the industry standard. Commercial standards use a 2:1 ratio as a benchmark, considering a 1:1 ratio to be a very strong position. The current ratio meets the pool standard and, with a solid surplus, allows more flexibility in underwriting in future years.



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 2005, 2006 and 2008, as well as more recently in 2012 and 2013. The Fund was able to absorb the 2005-2006 adverse development and poor investment results in 2008 with surplus from previous years. From 2009 to 2011, the Fund was able to build surplus from strong investment earnings and operating surplus. Tropical Storm Irene related property claims in 2011 might have had a significant impact on this surplus if property reinsurance had not covered all but the Fund's $500,000 retention. However net position at the beginning of 2011 was $10 million higher than before 2008, so the impact of Irene without the reinsurance would have been much less devastating to the Fund than it would have been had it happened in 2008.

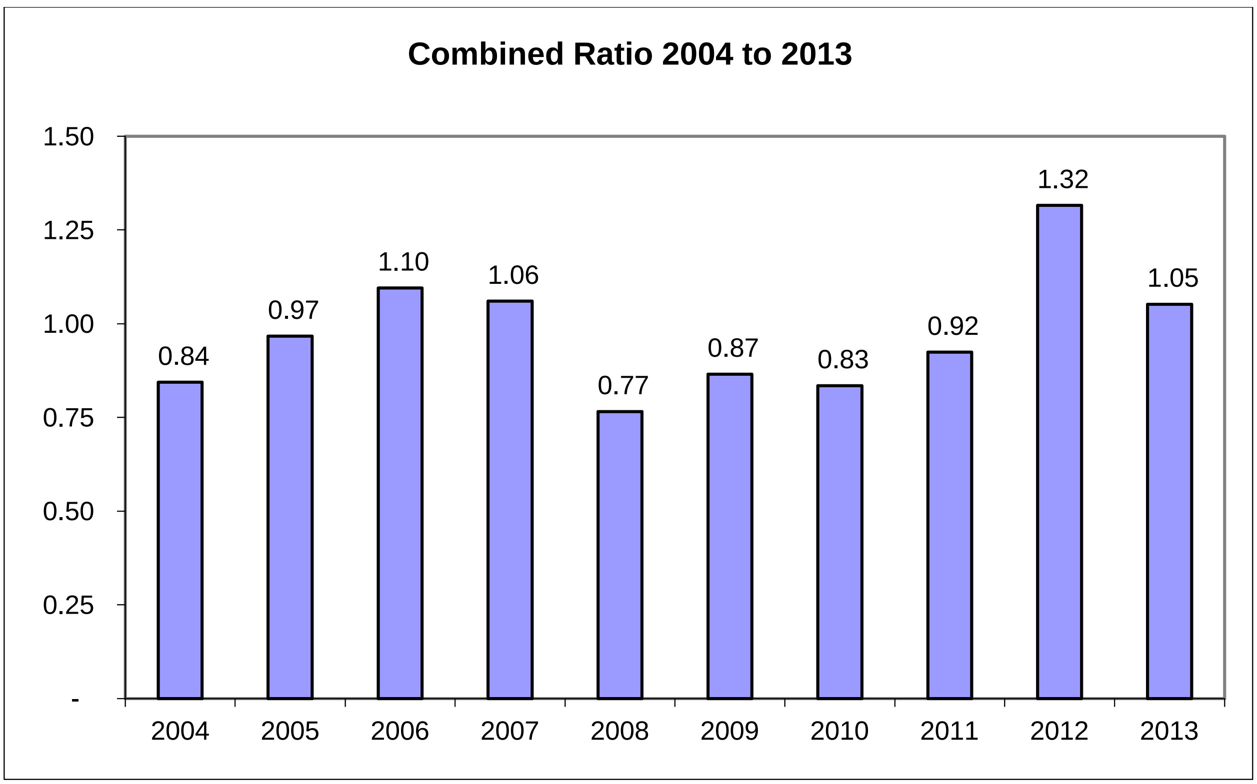
The adverse claim development that occurred in 2012 and 2013 reduced surplus by $3.6 million, further strengthening the argument for maintaining a strong net position or surplus. The Fund has continued to maintain its strong net position and remains well positioned to absorb future unexpected losses, catastrophic events 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 are generally subject to more risk or unpredictability than property coverage due to a longer "tail" or runout period. 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. However, because the mix of liability and property coverage for pool members is generally 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 contributions constitute only 35% of the total book of business, 53% of the reserves for future claims are for workers' compensation claims. The longer tail for these claims makes forecasting future costs less certain, making it more important to maintain a substantial cushion against unexpected losses. Worker's compensation and liability coverages, which are all long tail in nature, comprise 96% of total net loss reserves. Property and automobile physical damage coverages, which generally settle quickly, make up the remaining 4% of net loss reserves.

Secondly, the higher the proportion of more risky investments there are in the investment portfolio, the greater the impact of a bad investment year on any available net position. However, with 96% of the reserves 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. The current ratio of equity investments to surplus is 42%. Maintaining investments within these guidelines helps the Fund manage that risk appropriately, while allowing for higher long-term investment returns.

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". Underwriting 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. In 2006, the spike occurred after two years of adverse claim development and was followed by a reversal of this trend through 2011. A reduction in contributions combined with increases in losses and reinsurance moved this ratio from 0.83 in 2010 to 0.92 in 2011 and adverse claim development in 2012 increased it to 1.32. A sharp decrease in adverse development combined with an increase in rates moved the ratio down further to 1.05 in 2013.



Outlook/Economic Factors

Fund year 2014 renewal contribution levels increased by 4.8% to reflect adverse prior year loss development, an increase in the average cost per claim, and higher projected losses going forward. In spite of the rate increase, all members renewed their membership in PACIF for 2014. This increase follows last year's 8% increase, which followed two years of flat rates. It is our opinion, supported by the strength of the 2013 key ratios, that the last two year's rate increases have raised our loss fund to a level reflective of our current loss development patterns.

The Board directed $500,000 from net position to be returned to the membership based on an actuarial analysis of the financial status of prior fund years. The distribution amount is shown as credit against the members' 2014 contribution, and the member must renew with the Fund in order to receive the credit. Since inception, the Fund has returned over $16 million in contribution credits to the membership. Each member’s specific credit is derived via a formula that contemplates the fund years generating the surplus, the overall Fund loss ratio for those years, the number of surplus generating years that the member was in the Fund, and the member’s loss ratio in those years. This unique credit distribution program is one of the many benefits of belonging to a member-owned non-profit intermunicipal insurance association.

The 2014 Coverage Document was updated with most of the changes technical in nature. The Board added new first-party computer attack and computer security breach coverage for 2014. Included with this coverage is a risk management service program that will help members learn how to protect against a computer attack or breach as well as manage an attack or security breach, should it occur.

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 driving 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 advice from claims (AFC) and incident review process (IRP) initiatives are having a great impact on emerging claim trends and the Fund's more severe workers' compensation claims.

In 2014 PACIF will assume full funding and control of the health promotion/wellness program. In previous years this was a joint Health Trust and PACIF program. The program will now be called Work Strong and the emphasis of this program will solely focus on worker fitness. New programs will work to improve employee flexibility and weight management. Data shows that these two issues are major contributors to workplace injuries.

In addition to an emphasis on workers' compensation safety, the Fund continues to provide a wide range of training and educational services to the membership to bring awareness to and assistance in implementing risk management best practices in areas such as driving skills, flagger certification, law enforcement training, employment practices and internal financial controls.

Outlook/Economic Factors (Continued)

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. This program continues to be enormously successful. Also continuing is a contract with Agility Recovery that will give members access to services that help them to prepare for a potential disaster before it strikes and have access to temporary onsite resources for recovering quickly from a damaging event.

New for 2014 is an employment practices liability assistance program that will utilize the VLCT Municipal Assistance Center and local attorneys. This program is designed to provide members with pre-claim employment practices liability consultation from experienced labor attorneys. It is our belief that this proactive approach will reduce the incidence of expensive employment liability claims.

The success of the Fund's programs is a testament of the power of pooling Vermont municipalities together for their mutual benefit. It is the Fund's mission to relentlessly pursue the goal of providing member municipalities with broad coverage and superior risk management services and consultation for a fair and competitive price. PACIF may not be the low bid in any given year, but it is always the better value and will prove to be the overall lower cost in the long run.

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, 2013	As of December 31, 2012
Assets		
Investments		
Fixed-maturity securities, at fair value	$ 33,812,301	$ 34,415,899
Mutual funds, at fair value	7,573,338	5,848,076
Investment in NLC Mutual Insurance Company	2,221,412	2,109,603
Total investments	43,607,051	42,373,578
Cash and cash equivalents	6,296,988	6,847,461
Accrued investment income	268,256	296,281
Contributions receivable	119,980	313,222
Net subrogation and reinsurance receivable	1,024,515	-
Prepaid expenses	771,837	898,095
Reinsurance recoverable - paid losses	186,480	650,630
Other assets	196,307	506,692
Total Assets	$ 52,471,414	$ 51,885,959
Liabilities and Net Position		
Liabilities		
Losses and loss adjustment expenses, net of reinsurance	$ 21,763,505	$ 20,921,038
Accounts payable	320,469	291,946
Net subrogation and reinsurance payable	-	365,024
Contributions collected in advance	5,135,108	4,627,046
Claims expense and workers' compensation state assessment reserve	2,126,535	1,462,818
Total liabilities	29,345,617	27,667,872
Net Position		
Restricted		
Contribution credits	500,000	1,000,000
Safety grant program	-	200,000
Unrestricted	22,625,797	23,018,087
Total net position	23,125,797	24,218,087
Total Liabilities and Net Position	$ 52,471,414	$ 51,885,959

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, 2013	2012
Operating Revenues		
Fund contributions	$ 20,465,452	$ 18,526,721
Other income	39,446	15,750
Total operating revenues	20,504,898	18,542,471
Operating Expenses		
Losses and loss adjustment expenses, net of reinsurance	13,033,689	15,098,797
General and administrative expenses	4,191,589	3,989,863
Reinsurance expenses	3,940,030	3,893,071
Broker fees for reinsurance	145,000	123,787
Total operating expenses	21,310,308	23,105,518
Operating loss	(805,410)	(4,563,047)
Non-Operating Revenues (Expenses)		
Investment income - interest and dividends	1,419,375	1,428,603
Investment (loss) income - net change in fair value	(692,645)	1,871,487
Investment income - NLC Mutual Insurance Company	111,809	83,282
Investment management fees	(125,419)	(124,109)
Net non-operating revenue	713,120	3,259,263
Member distributions - contribution credits	1,000,000	1,250,007
Net non-operating (loss) income	(286,880)	2,009,256
Change in Net Position	(1,092,290)	(2,553,791)
Net Position, Beginning of Year	24,218,087	26,771,878
Net Position, End of Year	$ 23,125,797	$ 24,218,087

See accompanying notes to the financial statements.

VLCT Property and Casualty Intermunicipal Fund, Inc.

Statements of Cash Flows

	Years ended December 31, 2013	2012
Cash Flows from Operating Activities		
Receipts from members	$ 20,166,756	$ 17,859,724
Receipts for miscellaneous income	39,446	15,750
Payments for reinsurance expenses	(3,813,772)	(4,005,937)
Net payments for losses and loss adjustment expenses	(12,452,894)	(9,248,980)
Payments for general and administrative expenses	(3,997,681)	(4,072,365)
Net cash (used in) provided by operating activities	(58,145)	548,192
Cash Flows from Investing Activities		
Cost of investments purchased	(34,703,155)	(27,790,188)
Proceeds from sales and maturities of investments	32,777,037	25,790,389
Net receipts for interest and dividends	1,433,790	1,421,662
Net cash used in investing activities	(492,328)	(578,137)
Net change in cash and cash equivalents	(550,473)	(29,945)
Cash and Cash Equivalents, Beginning of Year	6,847,461	6,877,406
Cash and Cash Equivalents, End of Year	$ 6,296,988	$ 6,847,461
Reconciliation of Net Operating Loss to Net Cash (Used In) Provided By Operating Activities		
Operating Loss	$ (805,410)	$ (4,563,047)
Add (deduct) items not affecting cash:		
Member distributions - contribution credits	(1,000,000)	(1,250,007)
Changes in assets and liabilities:		
Contributions receivable	193,242	110,563
Net subrogation and reinsurance receivable	(1,389,539)	532,759
Prepaid expenses	126,258	(112,866)
Reinsurance recoverable - paid losses	464,150	(347,236)
Other assets	310,385	115,243
Losses and loss adjustment expenses, net of reinsurance	842,467	5,820,201
Accounts payable	28,523	(73,958)
Contributions collected in advance	508,062	472,447
Reinsurance collected in advance	-	(446,410)
Claims expense and workers' compensation state assessment reserve	663,717	290,503
Net Cash (Used In) Provided by Operating Activities	$ (58,145)	$ 548,192

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, (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, 2013 and 2012, the Fund provided coverage to 328 and 324 members, respectively. The Fund's members include political subdivisions of the State of Vermont such as 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 the 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.

Note B - Summary of Significant Accounting Policies (Continued)

Subsequent Events
The Fund has evaluated subsequent events for disclosure and recognition through March 21, 2014, 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, twenty-three of them constituting fund years to account for claims in their respective coverage years. The remaining fund, the Surplus Reserve Fund, was established to cover unanticipated deficits in the individual fund years, as well as enables the Fund to take on more risk with higher self-insured retentions and long-term investment strategies, and 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.

Both 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 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. 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

Note B - Summary of Significant Accounting Policies (Continued)

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 unaudited financial statements provided by NLC for the current year valuation and audited financial statements for the prior year valuation. 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.

The Fund's carrying amount of cash deposits and the bank balance at December 31, 2013 and 2012 were as follows:

	December 31, 2013		December 31, 2012	
	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	6,046,988	6,551,082	6,597,461	6,861,011
Total	$ 6,296,988	$ 6,801,082	$ 6,847,461	$ 7,111,011

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

Note B - Summary of Significant Accounting Policies (Continued)

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.

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. Contributions are based on recommended rates that are approved by the Board and the Vermont Department of Financial Regulation. The members' contributions are calculated based on rates recommended by an independent consulting actuary and taking into account projected claims, reinsurance and operational costs. Contributions are adjusted for individual member experience prior to renewal billing. 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.

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 and loss adjustment expenses.

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.

Note B - Summary of Significant Accounting Policies (Continued)

A portion of the net position has been designated as a safety margin or reserve for adverse development to increase the probability to a 99% confidence level (90% for 2012) that sufficient funds are available to cover all losses, as further described in Note J.

The liability for unpaid losses and loss adjustment expenses is 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 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, 2013 and 2012. 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, 2013 and 2012. 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 was $186,480 and $650,630 at December 31, 2013 and 2012, respectively, and is presented as an asset in the accompanying statements of net position. Reinsurance recoverable on unpaid losses was $4,666,291 and $4,456,138 as of December 31, 2013 and 2012, respectively, and is netted against the liability for unpaid losses and loss adjustment expenses on the statements of net position.

Note B - Summary of Significant Accounting Policies (Continued)

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.

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.

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, 2013 and 2012, total VLCT expenses allocated to the Fund were $2,858,687 and $2,618,904, respectively, which amounted to 77.1% and 77.5%, respectively, of total allocable VLCT service fees. 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

As of December 31, 2013, the Fund owed VLCT $85,170. As of December 31, 2012, VLCT owed the Fund $175,220.

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

For 2013, 14% of the expenses paid were for administration and marketing, 21% for underwriting, 46% for claims handling and 19% for loss prevention.

For 2012, 21% of the expenses paid were for administration and marketing, 19% for underwriting, 39% 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, 2013 and 2012.

- *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 for the portfolio to 8 years.

Note D - Investments (Continued)

The following table provides a summary of the fair value of the Fund's fixed-maturity security investment portfolio by contractual maturity as of December 31, 2013. 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	$ 1,418,666	$ 3,602,215	$ -	$ 2,474,501	$ 7,495,382
U.S. Agencies	-	-	-	4,842,715	4,842,715
U.S. Agency MBS	409,716	777,084	1,659,425	413	2,846,638
Corporate Bonds	566,856	3,255,059	5,314,373	8,221,949	17,358,237
Municipal Bonds	-	259,075	-	714,870	973,945
Foreign Bonds	-	-	-	295,384	295,384
Total	$ 2,395,238	$ 7,893,433	$ 6,973,798	$ 16,549,832	$ 33,812,301

The table below outlines the Standard and Poor’s credit ratings of the Fund’s fixed-maturity security investment holdings as of December 31, 2013:

	U.S. Treasuries	U.S. Agencies	U.S.Agency MBS	Corporate Bonds	Municipal Bonds	Foreign Bonds	Total
AAA	$ -	$ -	$ -	$ 2,828,793	$ 287,652	$ -	$ 3,116,445
AA+	7,495,382	4,842,715	2,846,638	609,261	-	-	15,793,996
AA	-	-	-	985,991	203,385	-	1,189,376
AA-	-	-	-	171,982	-	-	171,982
A+	-	-	-	289,065	259,075	295,384	843,524
A	-	-	-	3,199,412	223,833	-	3,423,245
A-	-	-	-	2,401,363	-	-	2,401,363
BBB+	-	-	-	3,986,454	-	-	3,986,454
BBB	-	-	-	1,602,560	-	-	1,602,560
BBB-	-	-	-	166,906	-	-	166,906
NR	-	-	-	1,116,450	-	-	1,116,450
Total	$ 7,495,382	$ 4,842,715	$ 2,846,638	$17,358,237	$ 973,945	$ 295,384	$ 33,812,301

Certain investments are considered not rated (NR) by Standard and Poor’s, but are rated by Moody's and Fitch rating services as follows as of December 31, 2013:

Moody's Aaa/ Fitch AAA	$855,952
Moody's Baa3/Fitch BBB-	$260,498

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, 2013:

	Fair Value	Effective Duration
U.S. Treasuries	$ 7,495,382	6.96
U.S. Agencies	4,842,715	4.17
U.S. Agency MBS	2,846,638	2.61
Corporate Bonds	17,358,237	6.48
Municipal Bonds	973,945	10.90
Foreign Bonds	295,384	6.95
Total	$ 33,812,301	5.48

The average effective duration of the investment portfolio as of December 31, 2013 and 2012, was 5.48 and 5.88 years, respectively.

The following table shows the classifications of the Fund's mutual fund investments as of December 31, 2013 and 2012:

Classification	2013 Fair Value	2012 Fair Value
Large Cap Blend	$ 2,323,343	$ 1,258,527
Large Cap Growth	-	911,406
Large Cap Value	2,290,468	771,892
Mid Cap Blend	783,350	-
Mid Cap Growth	-	990,561
Mid Cap Value	-	945,579
Small Cap Blend	797,119	970,111
High Yield	690,931	-
World Bond	688,127	-
Total	$ 7,573,338	$ 5,848,076

Note D - Investments (Continued)

Gross realized gains and losses on the sale of investments were $1,782,925 and $647,884, respectively, and net unrealized losses attributable to the change in fair value of investments were $1,827,686 for the year ended December 31, 2013. Gross realized gains and losses on the sale of investments were $1,157,519 and $133,639, respectively, and net unrealized gains attributable to the change in fair value of investments were $847,607 for the year ended December 31, 2012.

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:

	2013	2012
Capital contribution	$ 494,577	$ 494,577
Accumulated equity in earnings of NLC	1,726,835	1,615,026
Total investment in NLC	$ 2,221,412	$ 2,109,603

The Fund recognized investment income from NLC of $111,809 and $83,282 for the years ending December 31, 2013 and 2012, 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 $2,221,412 and $2,109,603 at December 31, 2013 and 2012, 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.

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

Contributions receivable includes contributions recorded but not currently due from the City of Burlington of $115,860 and $182,019 at December 31, 2013 and 2012, respectively. Contributions receivable also include current receivables due from other municipalities of $4,120 and $131,203 at December 31, 2013 and 2012, 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:

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

Note F - Contributions Receivable (Continued)

Fund years 1992, 1993, 1996 through 2000, 2002, 2004 and 2005 currently have no receivables outstanding at December 31, 2013, as they have reached the maximum.

All estimated contributions must be collected in accordance with the membership agreement. As of December 31, 2013 and 2012, 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 2013 and 2012.

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.

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

	2013	2012
Case-basis reserves	$ 16,434,613	$ 16,504,655
IBNR reserves	9,995,183	8,872,521
Gross reserves	26,429,796	25,377,176
Reinsurance recoverable on unpaid losses	(4,666,291)	(4,456,138)
Net reserves	21,763,505	20,921,038
Claims expense and WC state assessment reserve	2,126,535	1,462,818
Total net reserves	$ 23,890,040	$ 22,383,856

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

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:

	2013	2012
Liability at beginning of year, net of reinsurance recoverable of $4,456,138 and $15,120,062	$ 22,383,856	$ 16,273,152
Provision for losses:		
Provision for insured events of the current year	10,565,461	10,072,389
Increase in provision for insured events of prior years	2,468,228	5,026,408
Total provision for losses during the year	13,033,689	15,098,797
Payments:		
Claims and claims adjustment expenses attributable to insured events of the current year	2,987,357	2,501,075
Claims and claims adjustment expenses attributable to insured events of the prior years	8,540,148	6,487,018
Total payments during the year	11,527,505	8,988,093
Liability at end of year, net of reinsurance recoverable of $4,666,291 and $4,456,138	$ 23,890,040	$ 22,383,856

During 2013, the Fund experienced unfavorable loss development of prior years related to the 2006, 2007, and 2009-2012 workers' compensation, 2008 auto liability, 2012 property liability and 2005 general liability coverages. The unfavorable development was partially offset by favorable development related to 2007-2012 general liability coverages**.** During 2012, the Fund experienced unfavorable loss development of prior years related to the 2003, 2005-2008, 2010 and 2011 workers' compensation, 2008 auto liability and 2004, 2009 and 2011 property coverages. The unfavorable development was partially offset by favorable development related to the 2009 workers' compensation and 2005 and 2010 general liability coverages**.**

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.

Note H - Insurance Activity (Continued)

Reinsurance in place is as follows:

Line of Coverage	Reinsurance Term	Fund Retention	Policy Limit
Property	1/1/2009-1/1/2014	$500,000	$500,000,000[1]
	1/1/2005-1/1/2009	$150,000	$500,000,000[1]
	1/1/1996-1/1/2005	$150,000	$50,000,000[2]
Flood and Earthquake	1/1/2012-1/1/2014	$500,000	$50,000,000[1]
Casualty	1/1/2011-1/1/2014	$500,000	$10,000,000[3]
	1/1/2010-1/1/2011	$500,000	$5,000,000[3]
	1/1/2005-1/1/2010	$500,000	$2,000,000[3]
	1/1/1996-1/1/2005	$250,000	$2,000,000[3]
Workers' Compensation	1/1/2006-1/1/2014	$500,000	Statutory/$5,000,000[2]
	1/1/2005-1/1/2006	$350,000	Statutory/$5,000,000[2]
	1/1/1996-1/1/2005	$250,000	Statutory/$5,000,000[2]
Boiler & Machinery	1/1/1996-1/1/2014	$100,000	$50,000,000[4]

[1] aggregate limit
[2] aggregate limit per member
[3] per member per occurrence
[4] per occurrence limit

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

For the years ended December 31, 1998-2000, the Fund maintained a quota-share reinsurance agreement with NLC for 50% participation applied to all lines of business. Reinsurance recoverable from NLC amounted to $3,862 and $48,731 at December 31, 2013 and 2012, respectively, for this participation. Effective January 1, 2011, NLC takes 100% of the $500,000 xs $500,000 layer for property coverage.

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 Financial Regulation.

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-nine percent (99%) confidence level for 2013 (90% in 2012) 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, 2013 and 2012 was $3,809,762 and $1,339,360, 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 Vermont Department of Financial Regulation. Application for the extraordinary distribution shall be submitted to the Vermont Department of Financial Regulation 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 credits on the statement of contributions, expenses, and changes in net position. The member safety grant expenses are included in general and administrative expenses.

Distributions from the fund years were allocated as follows:

Year	2014 Credits	2013 Credits	2012 Credits
2003	53,878	94,857	156,324
2006	27,006	113,726	216,188
2007	112,631	260,672	271,453
2008	-	226,546	374,619
2009	177,693	235,729	481,416
2010	128,792	268,470	-
Total	$ 500,000	$ 1,200,000	$ 1,500,000

Note J - Net Position (Continued)

Distributions were allocated between contribution credits and member safety as follows:

	2014 Credits	2013 Credits	2012 Credits
Amounts approved for contribution credits	$ 500,000	$ 1,000,000	$ 1,250,000
Member safety grant program	-	200,000	250,000
Total funds applied	$ 500,000	$ 1,200,000	$ 1,500,000

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 (unaudited)

December 31, 2013

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), plus brokerage fees.
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, excluding investment fees.
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 coverage year).
6. This section of rows shows the cumulative amounts paid as of the end of successive years for each coverage year.
7. This section of rows shows how each coverage 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 coverage years.

VLCT Property and Casualty Intermunicipal Fund, Inc.

Claims Development Information (unaudited)

December 31, 2013

	Fiscal and Coverage Year Ended (in thousands of dollars)									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
(1) Gross contributions and investment income	$ 20,199	$ 17,818	$ 17,706	$ 18,499	$ 17,608	$ 16,399	$ 15,332	$ 16,018	$ 14,733	$ 13,146
(2) Less: Reinsurance expenses	3,614	3,324	2,667	2,984	2,690	2,805	2,523	2,783	2,512	2,308
(3) Net earned premiums and investment income	16,585	14,494	15,039	15,515	14,918	13,594	12,809	13,235	12,221	10,838
(4) Unallocated expenses	4,096	3,966	3,545	3,501	3,506	3,614	3,008	2,927	2,649	2,296
(5) Estimated losses and allocated expenses incurred, net at the end of year:	10,565	10,072	9,623	8,363	8,461	8,250	9,411	9,423	8,583	7,563
(6) Net paid (cumulative) as of:										
End of coverage year	2,987	2,501	4,133	3,131	2,646	2,509	2,881	2,321	2,689	2,584
One year later		5,735	6,714	5,054	5,214	4,432	4,848	5,044	5,719	4,648
Two years later			8,043	6,492	6,283	5,162	5,985	6,478	7,497	5,843
Three years later				8,740	7,140	5,859	6,566	7,390	8,574	7,019
Four years later					7,675	6,943	6,943	7,681	9,183	7,759
Five years later						7,559	7,253	8,436	9,962	8,805
Six years later							7,527	8,673	10,482	9,047
Seven years later								9,052	10,154	9,153
Eight years later									10,158	9,270
Nine years later										8,962
(7) Reestimated net incurred losses and allocated expenses										
End of coverage year	10,565	10,072	9,623	8,363	8,461	8,250	9,411	9,423	8,583	7,563
One year later		11,265	10,781	8,678	9,014	7,849	7,943	9,213	10,227	7,731
Two years later			11,602	9,981	8,483	7,448	7,406	9,311	10,291	7,888
Three years later				10,718	9,268	7,802	8,094	9,209	10,801	8,474
Four years later					8,886	9,242	7,759	9,037	10,801	8,565
Five years later						9,426	8,013	9,016	10,643	9,238
Six years later							8,185	9,278	10,695	9,310
Seven years later								9,282	10,363	9,284
Eight years later									10,227	9,389
Nine years later										9,053
(8) Increase (decrease) in estimated net incurred losses and allocated expenses from end of coverage year	$ -	$ 1,193	$ 1,979	$ 2,355	$ 425	$ 1,176	$ (1,226)	$ (141)	$ 1,644	$ 1,490

VLCT Property and Casualty Intermunicipal Fund, Inc.

Reconciliation of Claim Liabilities by Type of Contract (unaudited)

December 31, 2013

	Workers' Compensation		Property and Casualty Lines		Total	
	2013	2012	2013	2012	2013	2012
Reserve for losses and LAE at beginning of year, net of reinsurance	$ 8,743,770	$ 6,022,230	$ 13,640,086	$ 10,250,922	$ 22,383,856	$ 16,273,152
Losses and LAE incurred relating to:						
Current year	6,327,804	4,300,201	4,237,657	5,772,188	10,565,461	10,072,389
Prior years	3,604,037	3,036,633	(1,135,809)	1,989,775	2,468,228	5,026,408
Total losses and LAE incurred	9,931,841	7,336,834	3,101,848	7,761,963	13,033,689	15,098,797
Losses and LAE paid relating to:						
Current year	1,739,039	1,338,942	1,248,318	1,162,133	2,987,357	2,501,075
Prior years	4,381,581	3,276,352	4,158,567	3,210,666	8,540,148	6,487,018
Total losses and LAE paid	6,120,620	4,615,294	5,406,885	4,372,799	11,527,505	8,988,093
Reserve for losses and LAE at end of year, net of reinsurance	$ 12,554,991	$ 8,743,770	$ 11,335,049	$ 13,640,086	$ 23,890,040	$ 22,383,856

VLCT Property and Casualty Intermunicipal Fund, Inc.

Combining Statement of Net Position (unaudited)

December 31, 2013

	Surplus Reserve Fund	2014 Fund Year	2013 Fund Year	1992 - 2012 Fund Year	Total
Assets					
Fixed-maturity securities, at fair value	$ 23,766,410	$ -	$ -	$ 10,045,891	$ 33,812,301
Mutual funds, at fair value	-	-	-	7,573,338	7,573,338
Investment in NLC Mutual Insurance Company	2,221,412	-	-	-	2,221,412
Total Investments	25,987,822	-	-	17,619,229	43,607,051
Cash and cash equivalents	(6,948,960)	4,357,010	9,425,011	(536,073)	6,296,988
Accrued investment income	122,012	-	-	146,244	268,256
Contributions receivable	-	-	4,120	115,860	119,980
Net subrogation and reinsurance receivable	-	-	219,065	805,450	1,024,515
Prepaid expenses	-	769,969	-	1,868	771,837
Reinsurance recoverable - paid losses	-	-	-	186,480	186,480
Other assets	146,424	-	32,427	17,456	196,307
Total Assets	$ 19,307,298	$ 5,126,979	$ 9,680,623	$ 18,356,514	$ 52,471,414
Liabilities					
Losses and loss adjustment expenses, net of reinsurance	$ -	$ -	$ 6,754,984	$ 15,008,521	$ 21,763,505
Accounts payable	-	3,681	275,401	41,387	320,469
Contributions collected in advance	-	5,123,298	9,310	2,500	5,135,108
Claims expense and workers' compensation state assessment reserve	-	-	823,120	1,303,415	2,126,535
Total Liabilities	-	5,126,979	7,862,815	16,355,823	29,345,617
Net Position					
Restricted	-	-	-	500,000	500,000
Unrestricted	19,307,298	-	1,817,808	1,500,691	22,625,797
Total Net Position	19,307,298	-	1,817,808	2,000,691	23,125,797
Total Liabilities and Net Position	$ 19,307,298	$ 5,126,979	$ 9,680,623	$ 18,356,514	$ 52,471,414

VLCT Property and Casualty Intermunicipal Fund, Inc.

Combining Statement of Contributions, Expenses and Change in Net Position (unaudited)

December 31, 2013

	Surplus Reserve Fund	2014 Fund Year	2013 Fund Year	1992 - 2012 Fund Year	Total
Operating Revenues					
PC contributions	$ -	$ -	$ 13,372,871	$ (571)	$ 13,372,300
WC contributions	-	-	7,313,985	(220,833)	7,093,152
Other income	-	-	22,439	17,007	39,446
Total operating revenues (expenses)	-	-	20,709,295	(204,397)	20,504,898
Operating expenses					
Losses and loss adjustment expenses, net of reinsurance	-	-	10,565,461	2,468,228	13,033,689
General and administrative expenses	19,058	-	4,099,278	73,253	4,191,589
Reinsurance expenses	-	-	3,962,782	(22,752)	3,940,030
Broker fees for reinsurance	-	-	145,000	-	145,000
Total operating expenses	19,058	-	18,772,521	2,518,729	21,310,308
Operating (loss) income	(19,058)	-	1,936,774	(2,723,126)	(805,410)
Non-operating revenues (expenses)					
Investment income - interest and dividends	668,519	-	6,453	744,403	1,419,375
Investment income - net change in fair value	(657,785)	-	-	(1,169,901)	(1,827,686)
Net realized gains	1,062,912	-	-	72,129	1,135,041
Investment income - NLC Insurance Company	111,809	-	-	-	111,809
Investment management fees	-	-	(125,419)	-	(125,419)
Net non-operating revenues (expenses)	1,185,455	-	(118,966)	(353,369)	713,120
Member contributions - contribution credit	-	-	-	1,000,000	1,000,000
Non-operating income (loss)	1,185,455	-	(118,966)	(1,353,369)	(286,880)
Change in net position	1,166,397	-	1,817,808	(4,076,495)	(1,092,290)
Net position, beginning of year	18,140,901	-	-	6,077,186	24,218,087
Net position, end of year	$ 19,307,298	$ -	$ 1,817,808	$ 2,000,691	$ 23,125,797

VLCT Property and Casualty Intermunicipal Fund, Inc.

Schedule of General and Administrative Expenses (unaudited)

December 31, 2013 and 2012

	2013	2012
VLCT Administration	$ 2,858,687	$ 2,618,904
Data System	271,069	302,446
Consulting Services	59,068	46,364
Actuarial Services	79,044	55,354
Legal Services	5,140	2,655
Accounting	44,380	93,684
Banking Costs	39,594	28,654
Insurance	40,717	40,332
Board of Trustees	24,188	22,943
Staff Training	46,516	42,283
Vehicles	41,867	60,037
Printing	1,882	5,293
Member Training	201,405	200,238
Member Outreach	11,794	-
Drug and Alcohol	66,127	56,839
Wellness	143,089	138,630
Promotions	232,713	254,429
Dues and Subscriptions	20,703	19,677
Town Fair	-	850
Miscellaneous	3,606	251
Total	$ 4,191,589	$ 3,989,863