

Vermont League of Cities and Towns

Audited Financial Statements
with Required Supplementary Information
and Other Information

*Years ended December 31, 2018 and 2017
with Report of Independent Auditors*

Vermont League of Cities and Towns

Audited Financial Statements
with Required Supplementary Information and
Other Information

Years ended December 31, 2018 and 2017

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Report of Independent Auditors

Board of Directors
Vermont League of Cities and Towns

We have audited the accompanying financial statements of Vermont League of Cities and Towns, which comprise the statements of net position as of December 31, 2018 and 2017 and the related statements of revenues, 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of Vermont League of Cities and Towns as of December 31, 2018 and 2017 and the changes in its net position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 4 - 14 and the Schedule of Employer Pension Information on page 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 information 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 Vermont League of Cities and Towns' basic audited financial statements. The Schedule of Revenues and Expenses – Budgetary Basis on pages 43 - 46 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.

A handwritten signature in black ink that reads "Johnson Lambert LLP". The signature is written in a cursive, flowing style.

Burlington, Vermont

August 27, 2019

Vermont firm registration: 092-0000267

Vermont League of Cities and Towns

Management's Discussion and Analysis (Unaudited)

Years ended December 31, 2018 and 2017

Management of the Vermont League of Cities and Towns (VLCT) presents the following overview and analysis of its financial operations for the year ended December 31, 2018, to be reviewed and considered in conjunction with the more detailed statements, schedules and notes in the ensuing pages of this report.

In addition to its advocacy and Municipal Assistance Center operations, VLCT provides administrative services, office space and equipment usage to VLCT Employment Resource and Benefits Trust, Inc. (VERB) and VLCT Property and Casualty Intermunicipal Fund, Inc. (PACIF). Collectively, these are referred to as "the Trusts".

Highlights

- Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources at the end of 2018 by \$31,781, of which \$401,683 was invested in capital assets, net of related debt, leaving a deficit of \$369,902 as unrestricted net position. This compares with a net position of \$185,403 at December 31, 2017, of which \$488,804 was invested in capital assets, net of related debt, leaving a deficit of \$303,401 as unrestricted net position. The decrease in the unrestricted net position deficit at the end of 2018 is attributable to the recording of VLCT's share of the net pension liability from the Vermont Municipal Employees Retirement System (VMERS) defined benefit (DB) pension plan. It has resulted in unrestricted net position deficits as of December 31, 2018, 2017 and 2016.
- Debt related to capital assets includes the non-depreciated balance of all capital assets paid for by the Trusts at the time the assets were purchased, a total of \$274,743 as of December 31, 2018. VLCT owns all capital assets, and all trust-funded purchases become a liability to VLCT (under deferred revenue) with the balance reduced each year by the annual depreciation of the assets. As of December 31, 2018, debt related to capital assets also includes the amount owed on a credit line for copiers acquired in 2017, a total of \$17,657.
- Unrestricted net position at the end of 2018 and 2017 includes \$35,000 that management has budgeted and not spent in prior years that is being held to cover any insurance deductible for defending against potential lawsuits.

Vermont League of Cities and Towns

Management's Discussion and Analysis (Unaudited) (Continued)

Highlights (Continued)

- Net position decreased \$153,622 from an operating deficit realized during the year ended December 31, 2018. This was the result of an adjustment of \$222,593 to the VMERS DB pension expense to account for VLCT's share of the net pension liability. This expense increased significantly over the 2017 pension expense due to a combination of demographic experience, decreased investment earnings and an increase in actual over expected experience.
- Total revenue in 2018 is \$33,168 greater than budgeted primarily due to an increase in trust reimbursements. This was the result of additional one-time costs associated with the reorganization in Risk Management Services. In 2017, total revenue was \$241,264 less than budgeted, the result of staff turnover and a vacancy from a budgeted position left unfilled since the beginning of 2016.
- Total expenses were under budget by \$188,514, all of it attributable to the GASB 68 pension expense adjustment. Expenses in 2017 were under budget by \$285,848 with \$195,795 attributable to equipment expenses that were lower than expected due primarily to later implementation of the cloud services project.

Overview of the Financial Statements

VLCT's fiscal year is January 1 through December 31. There are no funds other than the General Fund. With the exception of administrative staff, the budget for each employee is allocated to one of the following cost centers based on his or her primary responsibility:

- Advocacy
- Municipal Assistance Center
- Grants
- VLCT Employment Resource and Benefits Trust
- VLCT Property and Casualty Intermunicipal Fund

Administrative staff includes employees working in the following departments:

- Executive Director
- Human Resources and Administrative Services
- Finance
- IT
- Communications and Marketing

Vermont League of Cities and Towns

Management's Discussion and Analysis (Unaudited) (Continued)

Overview of the Financial Statements (Continued)

Direct costs including salaries, benefits and all other operating costs for each cost center are charged directly to that cost center. The direct costs for the Trusts include salaries and benefits, along with employee-related costs such as company vehicles, travel and training, and any costs that may be attributed to the Trust budget for that employee. These costs are charged to the Trusts on a quarterly basis and then reimbursed to VLCT at year-end. Accruals and reconciliations are completed quarterly to account for overpayments of salaries and benefits that exceed what was budgeted.

The costs of administrative departments are allocated to all cost centers based on a ratio determined during budget preparation. The ratio is based on the department's assessment of its major activities and the average percentage of time spent for each cost center. These percentages are used to allocate the administrative department's budget across cost centers for that year's budget and are the basis for the administrative cost portion of the annual agreement between VLCT and each trust. The amount is not changed during the year, and there is no quarterly reconciliation process for these costs. Whenever possible, any adjustments, including adding or eliminating staff or programs, will occur during the budgeting process to avoid disruption of services across the cost centers.

Management's Discussion and Analysis is intended to serve as an introduction to VLCT's basic financial statements and provides supplemental information required by the Governmental Accounting Standards Board. VLCT's basic financial statements consist of the required financial statements and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

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 VLCT's status as of December 31, 2018 and 2017 and financial developments during the years ended December 31, 2018 and 2017 for all cost centers combined.

The Statements of Net Position present the economic position of VLCT, showing the assets owned by VLCT and how those assets are financed: by debt or short-term obligations, or by net position (VLCT's equity). The Statements of Net Position also show the deferred outflows and inflows of resources related to VLCT's participation in the VMERS defined benefit pension plan.

Vermont League of Cities and Towns

Management's Discussion and Analysis (Unaudited) (Continued)

Overview of the Financial Statements (Continued)

The Statements of Revenues, Expenses and Changes in Net Position show the operating transactions for the year, revenues and expenses, as well as any operating transfers. The result of operations is the change in net position. This amount added to last fiscal year's net position is the new net position total shown in the Statement of Net Position as well as the Statement of Revenues, Expenses and Changes in Net Position.

The Statements of Cash Flows outline the cash flows resulting from the operating, investment and financing activities of VLCT.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the required financial statements. The notes provide explanations of the accounting principles followed and of key items in the statements. They include tables with more detailed analyses of accounts requiring further clarification. The notes to the financial statements can be found immediately following the basic financial statements.

The Schedule of Employer Pension Information provides supplemental information about the VMERS DB pension plan as required by GASB 68 and can be found immediately following the notes to the financial statements.

In addition to the basic financial statements, the accompanying notes and the required supplementary information, this report also presents other information to provide additional financial information not included in the basic financial statements. This other information includes a Schedule of Revenues and Expenses – Budgetary Basis (unaudited) for the current fiscal year, comparing budget to actual and showing the variance from budget. The other information can be found immediately following the Schedule of Employer Pension Information.

Vermont League of Cities and Towns

Management's Discussion and Analysis (Unaudited) (Continued)

Results and Analysis

The following table summarizes the Statements of Net Position:

	December 31, 2018	December 31, 2017	Percentage Change	December 31, 2016	Percentage Change
Assets					
Current assets	\$ 1,413,777	\$ 1,325,098	6.7 %	\$ 964,144	37.4 %
Capital assets	<u>694,083</u>	<u>867,010</u>	(19.9)%	<u>896,404</u>	(3.3)%
Total Assets	2,107,860	2,192,108	(3.8)%	1,860,548	17.8 %
Deferred Outflows of Resources					
Deferred pension amounts	576,013	643,020	(10.4)%	843,304	(23.7)%
Liabilities					
Current payables and accruals	109,728	175,541	(37.5)%	218,499	(19.7)%
Current deferred revenue	743,278	724,094	2.6 %	553,156	30.9 %
Accrued compensated absences	170,007	182,917	(7.1)%	154,258	19 %
Non-current liabilities	<u>1,565,667</u>	<u>1,533,869</u>	2.1 %	<u>1,635,864</u>	(6.2)%
Total Liabilities	<u>2,588,680</u>	<u>2,616,421</u>	(1.1)%	<u>2,561,777</u>	2.1 %
Deferred Inflow of Resources					
Deferred pension expenses	<u>63,412</u>	<u>33,304</u>	100.0 %	-	- %
Net Position, End of Year	<u>\$ 31,781</u>	<u>\$ 185,403</u>	(82.9)%	<u>\$ 142,075</u>	30.5 %

Total assets at December 31, 2018 are \$2,107,860, down from \$2,192,108 at December 31, 2017. This decrease of \$84,248 or 4% is due primarily to a reduction in capital assets with depreciation exceeding the value of any new assets acquired during the year. New acquisitions, net of disposals totaled \$14,256, net of retirements, while depreciation, net of disposals, was \$187,183 resulting in a net decrease of \$172,927. In 2017, total assets increased by \$331,560 or 18% from the prior year, due to an operating cash surplus resulting from late implementation of budgeted cloud services implementation.

As of December 31, 2018, total liabilities decreased by \$27,741 or 1% from this time last year due to a decrease in payables, offset by an increase in net pension liability. The decrease in payables was driven by the Risk Management Services reorganization costs, which resulted in additional reimbursements from the trusts, whereas normally VLCT is returning money back to the trusts for unspent direct services. In 2017 total liabilities increased by \$54,644 or 2% from the prior year due to an increase in deferred revenue and accrued compensated absences, offset by decreases in payables and net pension liability.

Vermont League of Cities and Towns

Management's Discussion and Analysis (Unaudited) (Continued)

Results and Analysis (Continued)

Net position decreased by \$153,622 during the year ended December 31, 2018 primarily from an adjustment of \$222,593 in the VMERS DB pension expense to account for VLCT's share of the VMERS net pension liability. VLCT's proportionate share of this liability is \$1,470,811 with \$576,013 in deferred outflows of resources and \$63,412 in deferred inflows of resources. The VMERS DB total pension expense for 2018 of \$416,456 is the estimated expense inclusive of VLCT's share of the pension fund's unfunded liability.

By comparison, net position in 2017 increased by \$43,328 from the prior year from an adjustment of \$164,169 in the VMERS DB pension expense offset by cloud services costs savings due to the timing of implementation. VLCT's proportionate share of this liability was \$1,345,333 with \$643,020 in deferred outflows of resources and \$33,304 in deferred inflows of resources. The VMERS DB total pension expense for 2017 of \$341,401 was the estimated expense inclusive of VLCT's share of the pension fund's unfunded liability.

The following table summarizes operations shown in the Statements of Revenues, Expenses and Changes in Net Position for the years ended:

	December 31, 2018	December 31, 2017	Percentage Change	December 31, 2016	Percentage Change
Operating Revenues					
Member dues	\$ 1,085,445	\$ 1,053,556	3.0 %	\$ 1,007,123	4.6 %
Services	225,822	199,649	13.1 %	207,413	(3.7)%
Trusts	5,092,502	4,854,708	4.9 %	4,565,822	6.3 %
Other revenue	<u>105,180</u>	<u>129,270</u>	(18.6)%	<u>100,914</u>	28.1 %
Total operating revenues	6,508,949	6,237,183	4.4 %	5,881,272	6.1 %
Operating Expenses					
Combined cost centers	6,437,942	5,979,078	7.7 %	5,821,339	2.7 %
Capital costs	<u>232,298</u>	<u>216,381</u>	7.4 %	<u>177,056</u>	22.2 %
Total operating expenses	6,670,240	6,195,459	7.7 %	5,998,395	3.3 %
Operating income (loss)	(161,291)	41,724	486.6 %	(117,123)	(135.6)%
Non-Operating Revenues	<u>7,669</u>	<u>1,604</u>	378.1 %	<u>1,228</u>	30.6 %
Change in Net Position	(153,622)	43,328	454.6 %	(115,895)	(137.4)%
Net Position, Beginning of Year	<u>185,403</u>	<u>142,075</u>	30.5 %	<u>257,970</u>	(44.9)%
Net Position, End of Year	<u><u>\$ 31,781</u></u>	<u><u>\$ 185,403</u></u>	(82.9)%	<u><u>\$ 142,075</u></u>	30.5 %

Vermont League of Cities and Towns

Management's Discussion and Analysis (Unaudited) (Continued)

Results and Analysis (Continued)

The following table presents a budget to actual comparison in summarized form from the Statement of Revenues and Expenses - Budgetary Basis (unaudited) on pages 43 - 46 for the year ended December 31, 2018 :

	<u>Budget</u>	<u>Actual</u>	Percentage Over (Under) <u>Budget</u>
Operating Revenues			
Member dues	\$ 1,086,158	\$ 1,085,445	(0.1)%
Services	230,980	225,822	(2.2)%
Trusts	5,058,719	5,092,502	0.7 %
Other revenue	<u>106,633</u>	<u>105,180</u>	(1.4)%
Total operating revenues	6,482,490	6,508,949	0.4 %
Operating Expenses			
Combined cost centers **	6,203,032	6,437,942	3.8 %
Capital costs	<u>278,694</u>	<u>232,298</u>	(16.6)%
Total operating expenses	6,481,726	6,670,240	2.9 %
Operating loss	764	(161,291)	21,211.4 %
Non-Operating Revenues	<u>960</u>	<u>7,669</u>	698.9 %
Change in Net Position	<u>\$ 1,724</u>	<u>\$ (153,622)</u>	(9,010.8)%

** Refer to the Statement of Revenues and Expenses - Budgetary Basis (Unaudited) at the end of the financial statements for a breakdown of expenses by function.

As shown in the tables above, VLCT ended the year with an overall deficit of \$153,622. Operating revenues increased by \$271,766 (4%) from the prior year and were higher than projected by \$33,168 (1%). Operating expenses increased by \$474,781 (8%) from prior year and were higher than projected by \$188,514 (3%).

During the year ended December 31, 2017, VLCT had a surplus of \$43,328. Operating revenues were up by 6%, a total of \$355,911 over the prior year, and operating expenses were up by 3% or \$197,064. Revenues and expenses for 2017 were under budget by 4%.

Vermont League of Cities and Towns

Management's Discussion and Analysis (Unaudited) (Continued)

Results and Analysis (Continued)

The expense increase from 2017 to 2018 was primarily from a combination of annual salary and benefit adjustments and increased office space and equipment costs. Salary and benefits increases (7% and 5% respectively) were driven by the one-time overall cost related to the Risk Management Services reorganization and the annual GASB 68 pension adjustment. The continued phase-in of the building renovations and technology upgrades account for the increases in the office space and equipment categories (up 9% and 36% respectively). These also were the primary drivers of the revenue increase from 2017 to 2018 as they resulted in higher reimbursements from the Trusts. In 2017, the increase from prior year was due to a combination of annual salary and benefit adjustments, as well as increased office space, equipment and depreciation costs from the continued phase-in of the building renovations and technology upgrades.

Expenses in 2018 exceeded budget by 3% or \$188,514 due primarily to the pension adjustment of \$222,593. Salaries exceeded budget by \$104,342 due to Risk Management Services reorganization and related leave pay-outs. Leave payout expenses were offset by a commensurate reduction to the accrued leave liability and the reorganization costs were reimbursed to VLCT by the trusts.

Services revenues overall were under budget with Town Fair, workshop and advertising revenue realizing a combined shortfall of \$32,163, offset by \$25,696 in revenue over budget for professional services. The estimates for these categories reflected anticipated registrations and contracts that did not materialize.

By comparison, expenses in 2017 were below budget by 4% or \$284,564 due to a combination of decreased salary and equipment costs from vacancies and the delayed cloud services project. Services revenue experienced a shortfall of \$40,631 in 2017, mainly in workshop registrations and advertising contracts.

Other notable variances of 2018 revenues and expenses from budget or changes from the prior year include:

- Professional services revenue exceeded budget by \$25,696 (68%) and increased over 2017 by \$16,237 (34%). The Municipal Assistance Center negotiated a contract with the Vermont Department of Taxes Property Valuation and Review to provide training for listers, yielding additional funding of about \$20,000 over last year.
- Trust equipment reimbursement was below budget by \$23,911 due to the timing of trust software implementations and increased over last year by \$36,399 for routine software updates scheduled every few years.
- Miscellaneous revenue includes unanticipated short-term disability payments received for staff on medical leave that exceeded budget by \$24,320 and last year by \$13,489. This revenue offsets salaries for temporary help and are not normally accounted for in the budget estimates.

Vermont League of Cities and Towns

Management's Discussion and Analysis (Unaudited) (Continued)

Results and Analysis (Continued)

- Grant revenue is under budget by \$19,277. The Vermont State Department of Health has provided an annual grant to VLCT to coordinate and facilitate health officer training; however, they did not provide funding in 2018, resulting in \$20,000 less funding than anticipated in the budget.
- Office space costs are up almost 9% from last year \$37,905, reflecting the final year of a phased-in market rent adjustment. Rent will increase by 3% annually beginning in 2019.
- Communication costs were under budget by \$32,590 due to savings realized from delaying a phone upgrade. Management determined that implementation of a customer relations management system was a priority for 2018-2019 and therefore delayed the phone system upgrade to 2019-2020.
- Travel/training costs are below budget by \$22,538 mainly due to conference attendance that was again lower than estimated this year, though closer to projected than it was last year. The increase in actual costs from 2017 to 2018 was \$11,215.
- Town Fair and workshop costs increased 14% or \$13,875 and 24% or \$13,162, respectively, over prior year and was over budget by \$34,846. Overly optimistic estimates for Town Fair expenses at a new venue in South Burlington resulted in the overage for Town Fair. Two workshops that were not anticipated in the 2018 budget, the lister training and the economic development workshop, were the cause of the cost overrun for the workshop cost line item. The lister training costs were covered by revenue from the state, (about \$20,000).

Outlook and Economic Factors

VLCT ended its 2018 fiscal year with a decrease in total net position due to the pension adjustment which is required to comply with GASB 68 guidelines, VLCT must recognize its proportionate share of the VMERS unfunded accrued net pension liability in its financial statements. Without this adjustment, VLCT would have added approximately \$69,000 to net position from operations. Excluding the change in net pension liability, modest operating surpluses are expected to continue in the future, with any large increases coming from unexpected expenditure savings or higher service revenues than budgeted.

Staff remains our most valuable asset and represents 80% of VLCT costs. Having a well-qualified staff is the most important investment VLCT can make. VLCT is fortunate to have a staff with growing tenure and expertise. Turnover continues to be reasonably low although, with an older staff (about 25% are within 5-10 years of retirement eligibility), succession planning has been a key focus for management. The importance of continuing to provide a quality service program remains very strong.

Vermont League of Cities and Towns

Management's Discussion and Analysis (Unaudited) (Continued)

Outlook and Economic Factors (Continued)

Membership in VLCT remains at 100%. Discussions continue about potential new revenue sources, as well as how to recalibrate the dues formulas and provide appropriate benefits for the various tiers of membership. Branding is a priority for VLCT in the coming year as is implementing a customer relationship management system (CRM) that will streamline database management and offer efficiencies across departments. CRM is a project started in 2018 that will continue in the ensuing year or two. It is expected that this will also improve our ability to serve members more effectively through automated work processes and improved access to accounts, products and services.

Advocacy efforts on behalf of members continue as VLCT voices its concerns, advocates for local priorities, and works with State leaders to address municipal needs. A challenging priority in 2019 is securing passage of legislation to establish a means for towns to secure self-governing authority in broad areas affecting local government.

Local Government Day is the day that local officials from all over the state visit the State House to meet with legislators and testify at committee meetings on municipal priorities, including self-governance and transportation funding. We will continue to offer this networking opportunity to our members.

The Municipal Assistance Center will be focusing on some regional trainings, responding to concerns voiced during the listening sessions VLCT conducted in 2018. One of the goals is to offer more opportunities around the state as the education platform for municipal officials is broadened and expanded. MAC will be providing training in topics that members have requested or that have been popular in the past.

PACIF and VERB continue to have strong brand loyalty and are in an excellent financial position to meet obligations and provide tailored programs, services and coverages for members. Enterprise Risk Management and financial security will be a focus for PACIF in 2019 as the fund begins work on completing a capital adequacy study and net position (surplus) target range policy. VERB will continue strategic planning to identify the best way to assist members with their employee benefit needs, as health insurance options are limited outside the state exchange.

The major revenue sources that fund all five of VLCT's cost centers include dues, charges for services, reimbursements from the trusts, and other sources, including grants from federal or state sources.

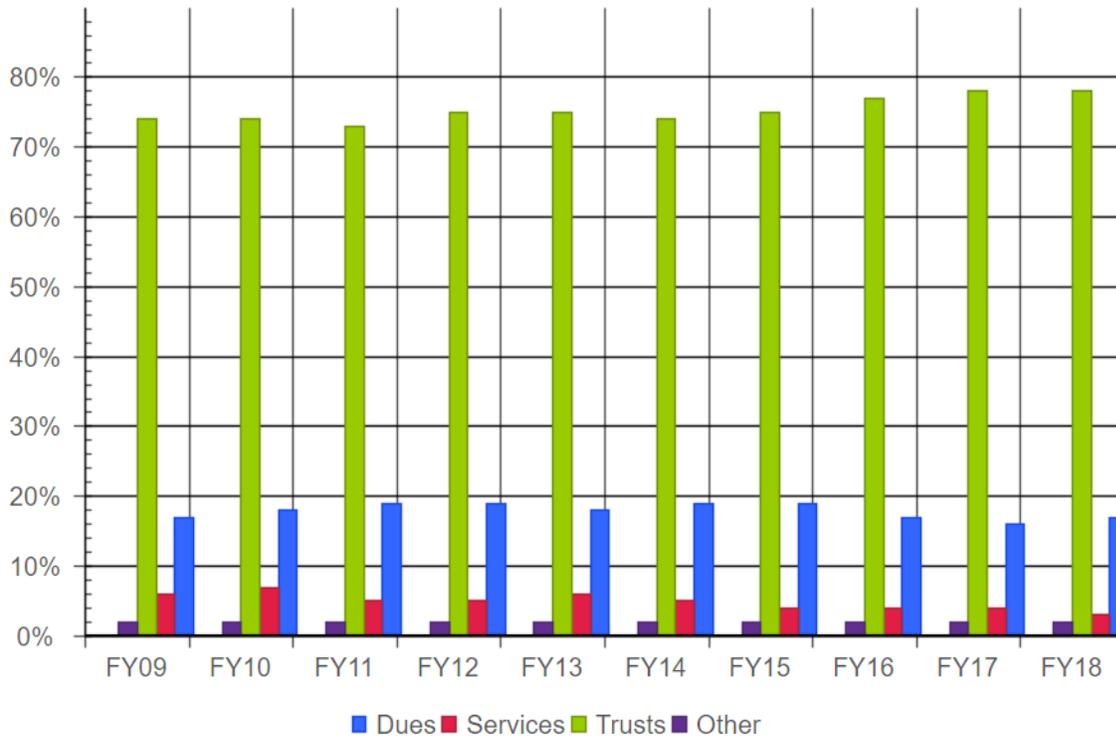
Vermont League of Cities and Towns

Management's Discussion and Analysis (Unaudited) (Continued)

Outlook and Economic Factors (Continued)

The following chart shows the gradual shift over time of the four categories of revenue. The trusts have absorbed a fair share of the overall increase as dues have covered less of the total. In 2019 during the 2020 budget preparation process, management will address this issue and work to find a better and more equitable balance in allocating costs across programs.

The following chart shows the gradual shift over time of the four types of revenue.



Requests for Information

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

Vermont League of Cities and Towns

Statements of Net Position

	As of December 31,	
	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 967,183	\$ 956,264
Accounts receivable	65,289	30,483
Amounts due from trusts	240,616	168,454
Prepaid expenses	140,689	169,897
Total current assets	<u>1,413,777</u>	<u>1,325,098</u>
Non-Current Assets		
Capital assets (net of accumulated depreciation)	<u>694,083</u>	<u>867,010</u>
Total Assets	<u>2,107,860</u>	<u>2,192,108</u>
Deferred Outflows of Resources		
Deferred pension amounts	<u>576,013</u>	<u>643,020</u>
Total Deferred Outflows of Resources	576,013	643,020
Liabilities		
Current Liabilities		
Accounts payable	76,067	66,148
Amounts due to trusts	-	94,865
Line of credit	5,111	4,917
Accrued payroll	28,550	9,611
Accrued compensated absences	170,007	182,917
Deferred revenue	550,845	539,341
Deferred revenue - trusts	192,433	184,753
Total current liabilities	<u>1,023,013</u>	<u>1,082,552</u>
Non-Current Liabilities		
Line of credit	12,546	17,742
Deferred revenue - trusts	82,310	170,794
Net pension liability	1,470,811	1,345,333
Total non-current liabilities	<u>1,565,667</u>	<u>1,533,869</u>
Total Liabilities	<u>2,588,680</u>	<u>2,616,421</u>
Deferred Inflow of Resources		
Deferred pension expenses	<u>63,412</u>	<u>33,304</u>
Total Deferred Inflow of Resources	63,412	33,304
Net Position		
Net investment in capital assets	401,683	488,804
Unrestricted	<u>(369,902)</u>	<u>(303,401)</u>
Total Net Position	<u>\$ 31,781</u>	<u>\$ 185,403</u>

See accompanying notes to the financial statements.

Vermont League of Cities and Towns

Statements of Revenues, Expenses and Changes in Net Position

	Years ended December 31,	
	2018	2017
Operating Revenues		
Dues - regular	\$ 962,565	\$ 934,540
Dues - associate	113,155	109,116
Dues - contributing	9,725	9,900
Town fair	78,130	78,622
Publications	4,809	3,556
Workshops	69,895	59,600
Professional services	63,476	47,239
Administrative services	74,810	71,216
Newsletter advertising	9,512	10,632
Trust contracts	4,806,940	4,611,375
PACIF loss prevention contract	55,000	55,000
VERB HR consulting contract	118,616	112,786
Equipment revenue from trusts	111,946	75,547
Net gain on sale of equipment	-	35,479
Other revenues	30,370	22,575
Total operating revenues	6,508,949	6,237,183
Operating Expenses		
Salaries	3,768,985	3,523,395
Employee benefits	1,436,172	1,367,757
Office space	482,123	444,218
Office equipment	279,980	205,148
Communications	80,606	69,431
Printing and supplies	52,028	59,731
Travel and training	64,857	53,642
Officers' costs	31,117	34,319
Contracted services	39,724	47,319
Dues and subscriptions	46,728	38,564
Town fair	70,883	57,008
Workshops	69,133	55,971
Administrative services	12,503	19,571
Depreciation	228,733	216,381
Net loss on sale of equipment	3,565	-
Other expenses	3,103	3,004
Total operating expenses	6,670,240	6,195,459
Operating (loss) income	(161,291)	41,724

See accompanying notes to the financial statements.

Vermont League of Cities and Towns

Statements of Revenues, Expenses and Changes in Net Position (Continued)

	Years ended December 31,	
	<u>2018</u>	<u>2017</u>
Non-Operating Revenues		
Investment income	<u>7,669</u>	<u>1,604</u>
Change in Net Position	(153,622)	43,328
Net Position, Beginning of Year	<u>185,403</u>	<u>142,075</u>
Net Position, End of Year	<u>\$ 31,781</u>	<u>\$ 185,403</u>

See accompanying notes to the financial statements.

Vermont League of Cities and Towns

Statements of Cash Flows

	Years ended 2018	December 31, 2017
Cash Flows from Operating Activities		
Receipts from membership dues	\$ 1,099,652	\$ 1,072,126
Receipts from trusts	4,899,671	4,938,968
Other receipts	238,493	305,099
Payments for salaries and benefits	(4,976,535)	(4,696,479)
Payments to vendors	<u>(1,193,658)</u>	<u>(1,073,105)</u>
Net cash provided by operating activities	67,623	546,609
Cash Flows from Financing Activities		
Receipts from sales of capital assets	950	51,141
Purchase of capital assets	(60,321)	(202,649)
Payments on capital lease	-	(16,278)
Borrowings on line of credit	-	25,837
Payments on line of credit	<u>(5,002)</u>	<u>(3,178)</u>
Net cash used in financing activities	(64,373)	(145,127)
Cash Flows from Investing Activities		
Net receipts for interest	<u>7,669</u>	<u>1,604</u>
Net Change in Cash and Cash Equivalents	10,919	403,086
Cash and Cash Equivalents, Beginning of Year	<u>956,264</u>	<u>553,178</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 967,183</u></u>	<u><u>\$ 956,264</u></u>

See accompanying notes to the financial statements.

Vermont League of Cities and Towns

Statements of Cash Flows (Continued)

	Years ended December 31,	
	<u>2018</u>	<u>2017</u>
Reconciliation of Operating (Loss) Income to Net Cash Provided By Operating Activities		
Operating (loss) income	\$ (161,291)	\$ 41,724
Add (deduct) items not affecting cash:		
Depreciation expense	228,733	216,381
Net loss (gain) on sale of equipment	3,565	(35,479)
Changes in statement of net position accounts:		
Accounts receivable	(34,806)	9,259
Amounts due from trusts	(72,162)	11,494
Prepaid expenses	29,208	21,379
Deferred pension amounts	67,007	200,284
Accounts payable	9,919	(6,558)
Amounts due to trusts	(94,865)	(26,888)
Accrued payroll	18,939	1,849
Accrued compensated absences	(12,910)	28,659
Deferred revenue	11,504	20,970
Deferred revenue - trusts	(80,804)	99,654
Net pension liability	125,478	(69,423)
Deferred pension expenses	<u>30,108</u>	<u>33,304</u>
Net cash provided by operating activities	<u>\$ 67,623</u>	<u>\$ 546,609</u>

See accompanying notes to the financial statements.

Vermont League of Cities and Towns

Notes to the Financial Statements

Years ended December 31, 2018 and 2017

Note A - Organization and Nature of Operations

Vermont League of Cities and Towns (VLCT) is the official cooperative association of Vermont's cities and towns. VLCT was founded in 1967 as a nonprofit, nonpartisan organization that serves the needs and best interests of Vermont municipalities. VLCT represents cities and towns working together to promote legislation, strengthen local government and provide information and other resources to assist municipal officials in their efforts to improve the quality of services provided to their citizens.

The reporting entity consists of the primary government (VLCT), and organizations for which VLCT is financially accountable. It also includes other organizations for which the nature and significance of their relationship with VLCT is such that their exclusion would cause the financial statements to be misleading or incomplete. Component units are legally separate organizations for which the officials of VLCT are financially accountable. VLCT is financially accountable if it is able to impose its will on that organization or if there is a potential for the organization to provide specific financial benefits to or burdens on VLCT. VLCT may also be financially accountable if an organization is fiscally dependent on VLCT. Included within VLCT is the Municipal Assistance Center (MAC), which has a distinct revenue stream. MAC provides certain services, including workshops and consulting, to members of VLCT. MAC is not a legally separate organization from VLCT. There are no agencies or entities that should be combined with the financial statements of VLCT.

The Board of Directors (the Board) is elected by the members and consists of thirteen municipal officials from the municipalities that are VLCT's members. The Executive Director is appointed by the Board to manage the general affairs of VLCT.

Note B - Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of VLCT have been prepared using the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental entities. VLCT also follows all statements in accordance with the Governmental Accounting Standards Board (GASB). VLCT uses the economic resources measurement focus and the accrual basis of accounting and is accounted for as a proprietary enterprise fund.

Subsequent Events

VLCT has evaluated subsequent events for disclosure and recognition through August 27, 2019, the date on which these financial statements were available to be issued.

Vermont League of Cities and Towns

Notes to the 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. Actual results could differ from those estimates. As of December 31, 2018 and 2017, significant estimates included in these financial statements primarily relate to the net pension liability and the related deferred inflows and outflows of resources, as more fully described in Note I.

Cash and Cash Equivalents

VLCT's cash and cash equivalents are considered to be cash on hand and demand deposits. All cash and cash equivalents are held at People's United Bank. The Federal Deposit Insurance Corporation (FDIC) insures amounts on deposit with each financial institution up to limits as prescribed by law. VLCT holds funds in excess of the FDIC insured amount. These excess funds are collateralized by U.S. government securities held by People's United Bank's trust department, with a security interest granted to VLCT. VLCT has not experienced any losses in such accounts, and management believes it is not exposed to any significant credit risk on cash and cash equivalents.

VLCT's carrying amount of cash deposits and the bank balance consist of the following at December 31:

	2018		2017	
	Book Balance	Bank Balance	Book Balance	Bank Balance
Insured/FDIC	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000
Unsecured and collateralized	716,983	740,906	706,114	719,596
Petty cash	200	-	150	-
Total	<u>\$ 967,183</u>	<u>\$ 990,906</u>	<u>\$ 956,264</u>	<u>\$ 969,596</u>

The difference between the carrying amount of cash deposits and the bank balance is due to reconciling items such as deposits in transit and outstanding checks. Due to higher cash flows at certain times during the year, the amounts collateralized by the bank during 2018 and 2017 may be substantially higher than at year end.

Prepaid Expenses

VLCT has made payments to vendors which reflect costs that are applicable to future accounting periods. These amounts are recorded as prepaid expenses. Prepaid expenses are reduced as the related costs are incurred.

Vermont League of Cities and Towns

Notes to the Financial Statements (Continued)

Note B - Summary of Significant Accounting Policies (Continued)

Accounts Receivable

Accounts receivable are stated at net realizable value. VLCT uses the allowance method to determine the uncollectible accounts receivable, which are based on management's judgment, experience and review of the current status of existing receivables. All receivables are deemed collectible by management at December 31, 2018 and 2017, and VLCT did not write off any amounts during 2018 and 2017.

Capital Assets

Capital asset acquisitions greater than \$5,000 are capitalized at cost. Capital assets are depreciated or amortized using the straight-line basis over their estimated useful lives. The estimated useful lives of capital assets are as follows for the years ended December 31, 2018 and 2017:

	<u>Estimated Useful Life (Years)</u>
Leasehold improvements	7
Computer equipment	4 - 5
Other equipment	4 - 10
Furniture	10
Vehicles	3 - 4

Deferred Revenue

As more fully described in Note F, deferred revenue represents membership dues, revenue from the trusts and other amounts collected in the current year for services or events to take place in subsequent years.

Accrued compensated absences

VLCT permits employees to accumulate earned but unused vacation time. The accrual is recorded in the financial statements as a liability based on current rates. No employee may carry vacation leave at the end of the calendar year in excess of the amount earned in that calendar year. Unused vacation time is paid to the employee upon termination of their employment. No liability is recorded for earned but unused sick time because it is not a vested benefit.

Income Taxes

VLCT is an unincorporated nonprofit association. VLCT is considered an instrumentality of the political subdivisions and, therefore, is exempt from taxation under the Internal Revenue Code Section 115. Accordingly, the accompanying financial statements do not include a provision for federal or state income taxes.

Vermont League of Cities and Towns

Notes to the Financial Statements (Continued)

Note B - Summary of Significant Accounting Policies (Continued)

Net Position

Unrestricted net position represents resources that have met all applicable restrictions and are considered to be available for unrestricted use. Net positions are classified based upon any restrictions that have been placed on those balances. Restrictions of net positions represent amounts that cannot be appropriated or are legally restricted for a specific purpose by a grant, contract or other binding agreement. There are no restrictions on net position as of December 31, 2018 and 2017.

Management has elected to designate a portion of the unrestricted net position to cover any insurance deductible for defending against potential lawsuits. The amount designated for this purpose was \$35,000 as of December 31, 2018 and 2017.

Classification of Revenues and Expenses

VLCT reports itself as a business-type activity as defined in GASB Statement No. 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 and distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses result from providing services and producing and delivering goods and services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of VLCT include member dues, and fees received for providing services and reimbursement from the trusts for administrative services provided. Operating expenses include salaries and benefits, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Vermont League of Cities and Towns

Notes to the Financial Statements (Continued)

Note C - Capital Assets

Capital asset activity for the year ended December 31, 2018 is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets at cost:				
Leasehold improvements	\$ 41,836	\$ 5,459	\$ -	\$ 47,295
Computer equipment	1,297,086	9,967	-	1,307,053
Other equipment	236,939	-	(46,065)	190,874
Furniture & fixtures	334,248	13,752	-	348,000
Vehicles	168,875	31,143	-	200,018
Total capital assets at cost	2,078,984	60,321	(46,065)	2,093,240
Less: accumulated depreciation	(1,211,974)	(228,733)	41,550	(1,399,157)
Total net capital assets	<u>\$ 867,010</u>	<u>\$ (168,412)</u>	<u>\$ (4,515)</u>	<u>\$ 694,083</u>

Capital asset activity for the year ended December 31, 2017 is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets at cost:				
Leasehold improvements	\$ 41,836	\$ -	\$ -	\$ 41,836
Computer equipment	1,201,080	97,547	(1,541)	1,297,086
Other equipment	267,303	13,581	(43,945)	236,939
Furniture & fixtures	334,248	-	-	334,248
Vehicles	188,491	91,521	(111,137)	168,875
Total capital assets at cost	2,032,958	202,649	(156,623)	2,078,984
Less: accumulated depreciation	(1,136,554)	(216,381)	140,961	(1,211,974)
Total net capital assets	<u>\$ 896,404</u>	<u>\$ (13,732)</u>	<u>\$ (15,662)</u>	<u>\$ 867,010</u>

Vermont League of Cities and Towns

Notes to the Financial Statements (Continued)

Note D - Leases

Operating Leases

Effective January 1, 2014, VLCT entered into a twelve-year lease agreement with City Center Montpelier, LLC for office space. Monthly rental payments were \$26,607 and \$23,893 for the years ended December 31, 2018 and 2017, respectively, and are included in office space expense on the statements of revenues, expenses and changes in net position. As of December 31, 2018, future minimum lease payments are as follows:

	<u>Amount</u>
2019	\$ 328,858
2020	338,723
2021	348,885
2022	359,351
2023	370,132
2024 - 2026	<u>1,178,362</u>
Total	<u><u>\$ 2,924,311</u></u>

Note E - Affiliated Organizations and Related Party Transactions

Per contractual agreements, VLCT provides administrative services, office space and equipment usage to VLCT Employment Resource and Benefits Trust, Inc. (VERB) and VLCT Property and Casualty Intermunicipal Fund, Inc. (PACIF). These entities are nonprofit corporations and are collectively referred to as "the trusts" throughout this document.

Some members of VLCT are also members and insureds of PACIF and/or members of VERB.

Certain Board members and officers of VLCT are also Board members and officers of PACIF and/or VERB. Certain employees of VLCT are officers of PACIF and/or VERB.

Vermont League of Cities and Towns

Notes to the Financial Statements (Continued)

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

The allocation of operating costs to the trusts is based on actual direct costs incurred and budgeted indirect costs. Direct costs include salaries and benefits for those employees working directly for a specific trust and other expenses that can be charged to a specific trust. Indirect costs include salaries and benefits for administrative support staff and other operating costs and are allocated at a fixed rate based on budgeted functions within the individual cost centers. On a quarterly basis, the trusts pay VLCT for operating costs based on budgeted direct and indirect expenses.

A reconciliation is performed quarterly to calculate the actual direct costs incurred. Any over/under accruals for direct costs are recorded on a quarterly basis and collected or billed at year end.

The final allocation to the trusts by expense category for the year ended December 31, 2018 is as follows:

	VERB	PACIF	Total
Salaries - allocated directly	\$ 231,808	\$ 1,574,421	\$ 1,806,229
Salaries - administration	95,348	849,714	945,062
Employee benefits - allocated directly	80,935	575,513	656,448
Employee benefits - administration	31,663	275,127	306,790
Office space	39,781	352,129	391,910
Office equipment	14,171	246,157	260,328
Communications	7,272	82,823	90,095
Printing and supplies	5,767	34,708	40,475
Travel and training	7,039	49,554	56,593
Officers' costs	3,223	32,049	35,272
Contracted services	3,537	36,313	39,850
Dues and subscriptions	2,081	26,884	28,965
Miscellaneous	5,230	29,327	34,557
Other	11,609	102,757	114,366
 Total trust contracts revenue	 \$ 539,464	 \$ 4,267,476	 \$ 4,806,940

Vermont League of Cities and Towns

Notes to the Financial Statements (Continued)

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

The final allocation to the trusts by expense category for the year ended December 31, 2017 is as follows:

	<u>VERB</u>	<u>PACIF</u>	<u>Total</u>
Salaries - allocated directly	\$ 198,357	\$ 1,530,140	\$ 1,728,497
Salaries - administration	82,887	796,905	879,792
Employee benefits	100,887	847,431	948,318
Office space	35,099	328,893	363,992
Office equipment	27,557	302,915	330,472
Communications	6,345	46,145	52,490
Printing and supplies	5,100	40,355	45,455
Travel and training	5,116	31,577	36,693
Officers' costs	3,052	34,072	37,124
Contracted services	2,907	29,092	31,999
Dues and subscriptions	2,586	24,022	26,608
Miscellaneous	<u>12,590</u>	<u>117,345</u>	<u>129,935</u>
 Total trust contracts revenue	 <u>\$ 482,483</u>	 <u>\$ 4,128,892</u>	 <u>\$ 4,611,375</u>

VLCT's net receivable from the trusts consists of the following as of December 31, 2018:

	<u>VERB</u>	<u>PACIF</u>	<u>Total</u>
Amounts due from trusts	\$ 145,416	\$ 95,200	\$ 240,616
Amounts due to trusts	<u>-</u>	<u>-</u>	<u>-</u>
 Net amounts due from (to) trusts	 <u>\$ 145,416</u>	 <u>\$ 95,200</u>	 <u>\$ 240,616</u>

VLCT's net receivable from the trusts consists of the following as of December 31, 2017:

	<u>VERB</u>	<u>PACIF</u>	<u>Total</u>
Amounts due from trusts	\$ 113,339	\$ 55,115	\$ 168,454
Amounts due to trusts	<u>(5,292)</u>	<u>(89,573)</u>	<u>(94,865)</u>
 Net amounts due from (to) trusts	 <u>\$ 108,047</u>	 <u>\$ (34,458)</u>	 <u>\$ 73,589</u>

Vermont League of Cities and Towns

Notes to the Financial Statements (Continued)

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

VLCT has a loss prevention contract with PACIF whereby PACIF subsidizes the cost of the workshops held by VLCT and pays for VLCT's staff to assist with special projects developed in conjunction with PACIF's claims staff. Revenue recognized from this agreement amounted to \$55,000 in both 2018 and 2017.

Pursuant to a formal agreement between MAC and VERB, MAC through VLCT provides staffing for a Human Resources Consulting Services program managed by VERB. Under this program, VERB provides human resources consulting services to assist PACIF's members with employment related risk management and legal liability issues. VLCT subsidizes a portion of the costs associated with this program. In 2018 and 2017, VLCT recognized consulting revenue of \$118,616 and \$112,786, respectively, related to this agreement, which is shown as VERB HR consulting contract revenue on the statements of revenues, expenses and changes in net position. The associated costs incurred by VLCT in 2018 and 2017 amounted to \$157,922 and \$125,318, respectively, and are included in salaries and employee benefits expenses on the statements of revenues, expenses and changes in net position.

VLCT purchases unemployment insurance for its employees through VERB. Contributions paid by VLCT to VERB for unemployment insurance amounted to \$8,706 and \$8,386 for the years ended December 31, 2018 and 2017, respectively, and are included in employee benefits on the statements of revenues, expenses and changes in net position.

Note F - Deferred Revenue

The components of deferred revenue are as follows at December 31:

	<u>2018</u>	<u>2017</u>
Deferred membership dues	\$ 548,994	\$ 534,937
Deferred revenue - trusts	274,743	355,547
Other deferred revenue	<u>1,851</u>	<u>4,404</u>
Total deferred revenue	<u>\$ 825,588</u>	<u>\$ 894,888</u>

Members pay dues on an annual basis with a July 1 renewal date. Member dues are recognized as revenue over the membership year to which they relate, with any unearned amounts recorded as deferred revenue. Deferred revenue is reduced as membership dues are earned throughout the year.

Vermont League of Cities and Towns

Notes to the Financial Statements (Continued)

Note F - Deferred Revenue (Continued)

Deferred revenue attributable to the trusts represents the book value of capital assets purchased by VLCT on behalf of the trusts and reimbursed to VLCT by the trusts. The value of the capital assets is classified as an asset and depreciated over the capital assets' estimated useful lives. The reimbursement from the trusts is classified as a liability (deferred revenue) and recognized as income over the same useful lives.

The components of deferred revenue attributable to the trusts are as follows at December 31:

	2018	2017
Deferred revenue - trusts, beginning of year	\$ 355,547	\$ 255,893
Add: reimbursement for new assets	34,606	261,573
Less: remaining depreciation on disposed assets	1,060	(11,523)
Less: current depreciation	(116,470)	(114,917)
Less: net gain on sale of assets	-	(35,479)
Deferred revenue - trusts, end of year	\$ 274,743	\$ 355,547

Note G - Net Position

The net investment in capital assets is as follows as of December 31:

	2018	2017
Capital assets at cost	\$ 2,093,240	\$ 2,078,983
Less: accumulated depreciation	(1,399,157)	(1,211,973)
Line of credit	(17,657)	(22,659)
Deferred revenue - trusts	(274,743)	(355,547)
Net investment in capital assets	\$ 401,683	\$ 488,804

There are no restricted uses of net positions as of December 31, 2018 and 2017.

Vermont League of Cities and Towns

Notes to the Financial Statements (Continued)

Note H - Line of Credit

During 2016, VLCT entered into an agreement with People's United Bank for a \$100,000 closed-end line of credit, with interest being charged at the lender's cost of funds plus 1.5%, adjusting daily, with a floor of 3%. The line of credit is to be secured by VLCT's capital assets that are purchased with the borrowed funds, and borrowed funds are not to exceed 80% of the cost of the capital assets purchased. During 2017, VLCT borrowed funds of \$25,837 on the line of credit. Principal and interest payments totaling \$474 are due monthly through March 29, 2022. As of December 31, 2018 and 2017, outstanding borrowings on the line of credit are \$17,657 and \$22,659, respectively.

Note I - Benefit Plans

VMERS Defined Contribution Plan:

VLCT participates in the VMERS defined contribution plan (Plan DC). Plan DC requires a 5% contribution by the employee for both 2017 and 2018 and a 5.625% and 5.125% contribution by the employer for 2018 and 2017, respectively. Eligible employees have the option to elect Plan DC during their first sixty days of employment. The premise of Plan DC is to allow employees to have a choice in investing their retirement assets and for such assets to be portable if the employees leave for other employment. Employees will receive the value of their account upon retirement. For the year ended December 31, 2018, covered payroll was \$175,580 and VLCT's contribution was \$9,357. For the year ended December 31, 2017, covered payroll was \$174,873 and VLCT's contribution was \$8,888.

VMERS Defined Benefit Plan:

Plan Description

VLCT also participates in the VMERS defined benefit plan (Plan DB). Plan DB is a cost-sharing, multiple-employer defined benefit pension plan that is administered by the State Treasurer and its Board of Trustees. It is designed for school districts and other municipal employees. An employee of any employer that becomes affiliated with the system is eligible to participate. Any employee hired subsequent to the effective participation date of their employer who meets the minimum hourly requirements is required to join the system.

Plan DB was established effective July 1, 1975 and is governed by Title 24, VSA Chapter 125 of the Vermont Statutes. During the plan years ended June 30, 2018 and 2017, the retirement system consisted of 402 and 431 participating employers, respectively.

Vermont League of Cities and Towns

Notes to the Financial Statements (Continued)

Note I - Benefit Plans (Continued)

The general administration and responsibility for formulating administrative policy and procedures of VMERS for its members and their beneficiaries is vested in the Board of Trustees, which consists of five members. They are the State Treasurer, two employee representatives elected by the membership of the system and two employer representatives, one elected by the governing bodies of participating employers of the system and one selected by the Governor from a list of four nominees. The list of four nominees is jointly submitted by the Vermont League of Cities and Towns and the Vermont School Boards Association. The Executive Director of VLCT is currently serving as an employer representative on the VMERS Board of Trustees.

Plan DB is divided into four membership groups:

- Group A – general employees whose legislative bodies have not elected to become a member of Group B or Group C
- Groups B & C – general employees whose legislative bodies have elected to become members of Group B or Group C
- Group D – sworn police officers, firefighters and emergency medical personnel

VLCT participates in Group B of Plan DB only.

Summary of Significant Accounting Policies

The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense reported by Plan DB have been determined using the accrual basis of accounting in conformity with GAAP as applied to governmental entities. Invested assets are reported at fair value.

Summary of System Provisions and Benefits

All assets are held in a single trust and are available to pay retirement benefits to all members. Benefits available to each group are based on average final compensation and years of creditable service and are summarized below:

<u>System Provisions and Benefits</u>	<u>Group B</u>
Membership	Full time employees of participating municipalities
Creditable service	Service as a member plus purchased service
Normal service retirement eligibility	Age 62 with 5 years of service, or age 55 with 30 years of service
Average Final Compensation (AFC)	Average annual compensation during highest 3 consecutive years
Benefit formula - normal service retirement (no reduction)	1.7% x creditable service x AFC + previous service: 1.4% x Group A service x AFC
Maximum Benefit Payable	60% of AFC
Post-Retirement COLA	50% of CPI, up to 3% per year

Vermont League of Cities and Towns

Notes to the Financial Statements (Continued)

Note I - Benefit Plans (Continued)

Vested	5 years of service
Early Retirement Eligibility	Age 55 with 5 years of service
Early Retirement Reduction	6% per year from age 62**
Disability Retirement Eligibility	5 years of service and disability as determined by Retirement Board
Disability Retirement Amount	Immediate allowance based on AFC and service to date of disability
Death Benefit Eligibility	Death after 5 years of service
Death Benefit Amount	Reduced early retirement allowance under 100% survivor option commencing immediately or, if greater, survivor's benefit under disability annuity computed as of date of death
Optional Benefit and Death after Retirement	Lifetime allowance or actuarially equivalent 50% or 100% joint and survivor allowance with refund of contribution guarantee
Refund of Contribution	Upon termination, if the member so elects or if no other benefit is payable, the member's accumulated contributions are refunded
Post-Retirement Adjustments	Allowances in payment for at least one year increased on each January 1 by one-half of the percentage increase in the consumer price index but not more than 3%
Retirement Stipend	\$25 per month payable at the option of the Board of Trustees to retirees

** A special early retirement factor of 3% per year only for municipal police officers who have attained age 60.

Members of all groups may qualify for vested deferred allowance, disability allowances and death benefit allowances subject to meeting various eligibility requirements.

Vermont League of Cities and Towns

Notes to the Financial Statements (Continued)

Note I - Benefit Plans (Continued)

The State legislature has sole authority to amend plan benefit provisions. There were no changes to benefit terms that affected measurement of the total pension liability since the prior measurement date of June 30, 2018 and June 30, 2017.

Contributions

Title 24, VSA Chapter 125 of the Vermont Statutes grants the authority to the Retirement Board to annually review the amount of municipalities' contributions as recommended by the actuary of the retirement system in order to achieve and preserve the financial integrity of the fund, and to certify the rates of contributions payable by employers. The Board of Trustees also certifies the rates of contribution payable by employees.

For the plan years ended June 30, 2018 and 2017, Plan DB requires a 4.875% contribution by the employee and a 5.500% contribution by the employer for Group B.

GASB 68 requires participating employers in VMERS to recognize their proportionate share of the collective net pension liability, collective deferred inflows of resources, collective deferred outflows of resources and collective pension expense. The employer allocation percentages are based on the ratio of each employer's contributions to VMERS to the total employer contributions during the measurement period. Contributions from employers are recognized when due, based on statutory requirements. Actuarially determined contributions are calculated as of the first day of each plan year (i.e., July 1).

The schedule of VLCT's contributions to the plan is as follows as of and for the years ended December 31:

	2018	2017
Contractually required contributions	\$ 183,132	\$ 181,342
Contributions in relation to the contractually required contributions	193,863	177,231
Contribution deficiency (excess)	\$ (10,731)	\$ 4,111
VLCT's covered payroll	\$ 3,484,249	\$ 3,222,390
Contributions as a percentage of covered payroll	5.56 %	5.50 %

Vermont League of Cities and Towns

Notes to the Financial Statements (Continued)

Note I - Benefit Plans (Continued)

Net Pension Liability

As of and for the year ended December 31, 2018, VLCT reported a liability of \$1,470,811 and a pension expense of \$416,456 for its proportionate share of the VMERS Plan DB net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

As of and for the year ended December 31, 2017, VLCT reported a liability of \$1,345,333 and a pension expense of \$341,401 for its proportionate share of the VMERS Plan DB net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

VLCT's proportion of the net pension liability is based on a projection of VLCT's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined. At June 30, 2018, VLCT's proportion was 1.04553%, which was a decrease of 0.06489 percentage points from its proportion measured as of June 30, 2017. At June 30, 2017, VLCT's proportion was 1.11042%, which was an increase of 0.12140 percentage points from its proportion measured as of June 30, 2016.

Vermont League of Cities and Towns

Notes to the Financial Statements (Continued)

Note I - Benefit Plans (Continued)

The schedule of VLCT's proportionate share of the collective net pension liability and pension expense are as follows as of and for the plan years ended June 30:

	2018	2017
VLCT's proportion of the collective net pension liability	1.04553 %	1.11042 %
VLCT's proportionate share of the collective net pension liability	\$ 1,470,811	\$ 1,345,333
VLCT's proportionate share of the collective net pension expense	\$ 416,456	\$ 341,401
VLCT's covered payroll	\$ 3,484,249	\$ 3,222,390
VLCT's proportionate share of the net pension liability as a percentage of its covered-employee payroll	42.21 %	41.75 %
Plan DB's fiduciary net position as a percentage of the total pension liability	82.60 %	83.64 %

Deferred Outflows and Inflows of Resources

As of and for the years ended December 31, 2018 and 2017, VLCT reported its proportionate share of Plan DB's deferred outflows of resources related to pensions from the following sources:

Sources of Deferred Outflows of Resources	2018	2017
Difference between expected and actual economic experience	\$ 127,756	\$ 19,571
Changes in assumptions and other inputs	162,874	281,644
Net difference between projected and actual earnings on plan investments	170,462	224,074
Changes in proportion and differences between employer contributions and proportionate share of contributions	14,566	28,109
Total allocated deferred pension amounts	475,658	553,398
Contributions paid to Plan DB subsequent to the measurement date	100,355	89,622
Total deferred pension amounts	\$ 576,013	\$ 643,020

Vermont League of Cities and Towns

Notes to the Financial Statements (Continued)

Note I - Benefit Plans (Continued)

There were deferred inflows of resources related to differences between expected and actual experience of \$23,518 and changes in proportion and differences between employer contributions and proportionate share of contributions of \$39,894 as of December 31, 2018. There were deferred inflows of resources related to differences between expected and actual experience of \$33,304 as of December 31, 2017.

The net amounts of VLCT's balances of net deferred outflows of resources as of December 31, 2018 related to pensions will be recognized as pension expense as follows during the years ended December 31:

	Pension Expense Amount
2019	\$ 277,820
2020	92,155
2021	16,878
2022	25,394
Total	\$ 412,247

Actuarial Methods and Assumptions

The total pension liability for the June 30, 2018 measurement date was determined by an actuarial valuation as of June 30, 2017 with update procedures used to roll forward the total pension liability to June 30, 2018. The assumptions used in the actuarial valuation were selected on the basis of the experience study that was performed for the four-year period ending June 30, 2014.

The total pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of June 30, 2016 with update procedures used to roll forward the total pension liability to June 30, 2017. The assumptions used in the actuarial valuation were selected on the basis of the experience study that was performed for the four-year period ending June 30, 2014.

The significant assumptions and methods used in the actuarial valuation for the June 30, 2018 measurement period are as follows:

Investment rate of return:	7.50%
Salary increases:	5% per year
Deaths:	98% of RP-2006 tables, blended 60% Blue Collar Employee, 40% Healthy Employee with generational projection using Scale SSA-2017.

Vermont League of Cities and Towns

Notes to the Financial Statements (Continued)

Note I - Benefit Plans (Continued)

Future expenses:	An expense adjustment based on actual expenses for the previous year is reflected in the development of recommended employer contribution levels.
Actuarial cost method:	Entry Age Actuarial Cost Method. Entry Age is the age at date of employment or, if date is unknown, current age minus years of service. Normal Cost and Actuarial Accrued Liability are calculated on an individual basis and are allocated by salary, with Normal Cost determined using the plan of benefits applicable to each participant.
Cost-of-living adjustments to benefits of terminated vested and retired participants:	Assumed to occur at the rate of 1.3% per annum.
Inflation:	The separately stated assumptions for investment return, salary increases and cost of living adjustments are consistent with an expected annual inflation rate of 2.50% per year.

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Vermont League of Cities and Towns

Notes to the Financial Statements (Continued)

Note I - Benefit Plans (Continued)

Best estimates of arithmetic rates of return for each major asset class included in the target asset allocation as of June 30, 2018 are summarized as follows:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	18.00 %	6.10 %
Non-U.S. Equity	16.00 %	7.45 %
Global Equity	9.00 %	6.74 %
Fixed income	26.00 %	2.25 %
Real Estate	8.00 %	5.11 %
Private Markets	15.00 %	7.60 %
Hedge Funds	8.00 %	3.86 %
Total	100.00 %	

Nominal long-term expected rates of return for these asset classes are equal to the sum of the above expected long-term real rates and the expected long-term inflation rate of 2.5%.

Discount Rate

The discount rate used to measure the total pension liability as of June 30, 2018 and 2017 was 7.50%. In accordance with paragraph 29 of GASB 68, professional judgment was applied to determine that the System's projected fiduciary net position exceeds projected benefit payments for current active and inactive members for all years. The actuarially determined contribution rate is comprised of an employer normal cost payment and a payment to reduce the unfunded liability to zero by June 30, 2038. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Vermont League of Cities and Towns

Notes to the Financial Statements (Continued)

Note I - Benefit Plans (Continued)

Discount Rate Sensitivity Analysis

The following presents VLCT's proportionate share of the net pension liability, calculated using the discount rate of 7.5%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current rate at June 30, 2018:

	1% Rate Decrease (6.5%)	Current Discount Rate (7.5%)	1% Rate Increase (8.5%)
VLCT's Proportionate Share of the Net Pension Liability:	\$ <u>2,491,222</u>	\$ <u>1,470,811</u>	\$ <u>640,934</u>

Additional Information

Additional information regarding VMERS is available upon request from the State of Vermont Office of the State Treasurer or on VMERS' website at:

<http://www.vermonttreasurer.gov/content/retirement/municipal>

VMERS does not issue stand-alone financial reports, and Plan DB is instead included as a fiduciary fund in the State of Vermont's Comprehensive Annual Financial Report (CAFR). Plan DB's fiduciary net position has been determined on the same basis of accounting as it is reported by Plan DB. Detailed information about Plan DB's fiduciary net position is available in the CAFR, which can be viewed on the State's Department of Finance & Management website at:

<http://finance.vermont.gov/reports-and-publications/cafr>

ICMA Plans:

VLCT does not participate in the social security program, instead offering employees a defined contribution plan through the ICMA Retirement Corporation in accordance with IRS Revenue Code Section 401(a). The ICMA plan requires a 4.5% contribution by the employee and a 7.1% contribution by VLCT. For the year ended December 31, 2018, covered payroll under this plan was \$3,534,711 and VLCT's contribution was \$250,899. For the year ended December 31, 2017, covered payroll under this plan was \$3,425,868 and VLCT's contribution was \$239,050. For the year ended December 31, 2016, covered payroll under this plan was \$3,137,098 and VLCT's contribution was \$243,237.

VLCT also offers a voluntary deferred compensation plan through the ICMA Retirement Corporation in accordance with Internal Revenue Code Section 457. Deferred compensation is not available to employees until termination, retirement, death or an unforeseeable emergency.

Required Supplementary Information

Vermont League of Cities and Towns

Schedule of Employer Pension Information (Unaudited)

The following unaudited schedule presents VLCT's proportionate share of the Plan's net pension liability and related ratios for multiple years.

Plan years ended December 31,	% Proportionate share of the collective net pension liability	Proportionate share of the collective net pension liability	Covered payroll	Proportionate share of the collective net pension liability as a % of covered payroll	Plan's fiduciary net position as a % of total pension liability
2016	1.0879%	\$ 838,683	\$ 2,764,800	30.33%	87.42%
2017	1.1104%	\$ 1,345,333	\$ 3,222,390	41.75%	83.64%
2018	1.0455%	\$ 1,470,811	\$ 3,484,249	42.21%	82.60%

The following unaudited schedule presents VLCT's employer contributions to the Plan and related ratios for multiple years.

Plan years ended December 31,	Actuarially determined contribution	Actual contribution	Contribution deficiency (excess)	Covered payroll	Actual contribution as a % of covered payroll
2016	\$ 152,064	\$ 152,064	\$ -	\$ 2,764,800	5.50%
2017	\$ 181,342	\$ 177,231	\$ 4,111	\$ 3,222,390	5.50%
2018	\$ 183,132	\$ 193,863	\$ (10,731)	\$ 3,484,249	5.56%

Other Information

Vermont League of Cities and Towns

Statement of Revenues and Expenses - Budgetary Basis (Unaudited)

Year ended December 31, 2018

	Budget	Actual	Over/(Under) Budget
Revenues			
Dues			
Regular members	\$ 962,565	\$ 962,565	\$ -
Associate members	113,693	113,155	(538)
Contributing members	9,900	9,725	(175)
Total dues	1,086,158	1,085,445	(713)
Services			
Town fair	90,000	78,130	(11,870)
Publications	3,500	4,809	1,309
Workshops	78,200	69,895	(8,305)
Professional services	37,780	63,476	25,696
Newsletter advertising	21,500	9,512	(11,988)
Total services	230,980	225,822	(5,158)
Administrative services			
Administrative contracts	8,133	9,087	954
Grant administration	85,000	65,723	(19,277)
Total administrative services	93,133	74,810	(18,323)
Trust reimbursements			
Trust contracts	4,739,940	4,806,940	67,000
PACIF loss prevention contract	55,000	55,000	-
VERB HR consulting contract	127,922	118,616	(9,306)
Equipment revenue from trusts	135,857	111,946	(23,911)
Total trust reimbursements	5,058,719	5,092,502	33,783
Other revenues	13,500	30,370	16,870
Investment income	960	7,669	6,709
Total Revenues	6,483,450	6,516,618	33,168

** Some accounts have been reclassified in the audited financial statements for presentation purposes.

Vermont League of Cities and Towns

Statement of Revenues and Expenses - Budgetary Basis (Unaudited) (Continued)

Year ended December 31, 2018

	Budget	Actual	Over/(Under) Budget
Expenses			
Salaries			
Salaries	\$ 3,609,308	\$ 3,709,326	\$ 100,018
Temp services	3,000	4,580	1,580
Payroll taxes	52,335	55,079	2,744
Total salaries	3,664,643	3,768,985	104,342
Employee benefits			
VMERS Plan DB	188,744	416,456	227,712
VMERS Plan DC	9,281	9,357	76
401(a) employer contributions	251,095	250,899	(196)
Health insurance	709,945	681,366	(28,579)
Long-term care insurance	8,604	8,591	(13)
Dental insurance	20,554	20,249	(305)
Life and disability insurance	42,981	38,430	(4,551)
Unemployment insurance	9,000	8,706	(294)
Employee assistance	1,080	1,080	-
Benefit plan administration	944	1,038	94
Total employee benefits	1,242,228	1,436,172	193,944
Office expenses			
Lease payments	319,279	319,279	-
Electricity	26,000	20,102	(5,898)
Building maintenance	19,360	20,272	912
Insurance - office	97,380	94,849	(2,531)
Property taxes	22,000	22,079	79
Parking	4,600	5,542	942
Total office expenses	488,619	482,123	(6,496)
Equipment expenses			
Equipment maintenance/lease	9,284	4,899	(4,385)
Non-capital equipment purchases	13,800	15,557	1,757
Equipment interest expense	-	789	789
Copier contracts	15,200	15,816	616
Software maintenance	247,300	242,363	(4,937)
Software purchases	9,500	556	(8,944)
Total equipment expenses	295,084	279,980	(15,104)

(continued)

Vermont League of Cities and Towns

Statement of Revenues and Expenses - Budgetary Basis (Unaudited)
(Continued)

Year ended December 31, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Over/(Under) Budget</u>
Expenses (continued)			
Communications			
Postage and postage meter rental	45,100	37,612	(7,488)
Postage meter rental	950	962	12
Telecommunications	<u>67,146</u>	<u>42,032</u>	<u>(25,114)</u>
Total communications	113,196	80,606	(32,590)
Printing and supplies			
Job printing	29,000	26,780	(2,220)
Paper purchases	10,000	6,226	(3,774)
Supplies	<u>25,650</u>	<u>19,022</u>	<u>(6,628)</u>
Total printing and supplies	64,650	52,028	(12,622)
Travel and training			
Vehicle expense	23,595	20,077	(3,518)
Member outreach	14,300	13,874	(426)
Staff travel/training	<u>49,500</u>	<u>30,906</u>	<u>(18,594)</u>
Total travel and training	87,395	64,857	(22,538)
Officers' expenses			
Board costs	36,350	31,117	(5,233)
President's stipend	<u>1,800</u>	<u>-</u>	<u>(1,800)</u>
Total officers' expenses	38,150	31,117	(7,033)
Contracted services			
Auditing and accounting	23,250	23,096	(154)
Bank services	4,200	4,268	68
Legal services	10,500	6,910	(3,590)
Consultants	5,000	3,135	(1,865)
Recruiting	<u>5,000</u>	<u>2,315</u>	<u>(2,685)</u>
Total contracted services	47,950	39,724	(8,226)
Dues and subscriptions			
National League of Cities	18,250	17,979	(271)
Professional associations	<u>25,897</u>	<u>28,749</u>	<u>2,852</u>
Total dues and subscriptions	44,147	46,728	2,581

(continued)

Vermont League of Cities and Towns

Statement of Revenues and Expenses - Budgetary Basis (Unaudited)
(Continued)

Year ended December 31, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Over/(Under) Budget</u>
Expenses (continued)			
Services			
Town fair	51,800	70,883	19,083
Workshops	53,370	69,133	15,763
Consulting	10,000	12,503	2,503
Total services	<u>115,170</u>	<u>152,519</u>	<u>37,349</u>
Miscellaneous			
Miscellaneous	1,800	3,103	1,303
Net loss on sale of equipment	250	3,565	3,315
Depreciation expense	278,444	228,733	(49,711)
Total miscellaneous	<u>280,494</u>	<u>235,401</u>	<u>(45,093)</u>
Total Expenses	<u>6,481,726</u>	<u>6,670,240</u>	<u>188,514</u>
Change in Net Position	<u>\$ 1,724</u>	<u>\$ (153,622)</u>	<u>\$ (155,346)</u>

** Some accounts have been reclassified in the audited financial statements for presentation purposes.

(continued)