

Vermont League of Cities and Towns

Audited Financial Statements

with Required Supplementary Information

and Other Information

Years ended December 31, 2021 and 2020
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, 2021 and 2020

Contents

Report of Independent Auditors.....1 - 3
Management's Discussion and Analysis (Unaudited).....4 - 14

Audited Financial Statements

Statements of Net Position15
Statements of Revenues, Expenses and Changes in Net Position.....16
Statements of Cash Flows.....17 - 18
Notes to the Financial Statements.....19 - 37

Required Supplementary Information

Schedule of Employer Pension Information (Unaudited).....39

Other Information

Statement of Revenues and Expenses - Budgetary Basis (Unaudited).....41 - 44

Report of Independent Auditors

Board of Directors
Vermont League of Cities and Towns

Opinion

We have audited the accompanying financial statements of Vermont League of Cities and Towns (VLCT), which comprise the statements of net position as of December 31, 2021 and 2020, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of VLCT as of December 31, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of VLCT and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about VLCT's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 VLCT's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about VLCT's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 39 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 VLCT's basic audited financial statements. The Schedule of Revenues and Expenses – Budgetary Basis on pages 41 - 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.

A handwritten signature in black ink that reads "Johnson Lambert LLP". The signature is written in a cursive, flowing style with large loops and a prominent initial 'J'.

Burlington, Vermont

October 3, 2022

Vermont firm registration: 092-0000267

Vermont League of Cities and Towns

Management's Discussion and Analysis (Unaudited)

Years ended December 31, 2021 and 2020

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, 2021, to be reviewed and considered in conjunction with the more detailed statements, schedules and notes in the ensuing pages of this report.

VLCT is a nonprofit, nonpartisan organization that serves Vermont's municipal governments (its members) by providing services through its advocacy and Municipal Assistance Center operations. VLCT also 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

- Liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources at the end of 2021 by \$321,950, of which \$273,165 was invested in capital assets, net of related debt, leaving a deficit of \$595,115 as unrestricted net position. This compares with a net position deficit of \$395,893 at December 31, 2020, of which \$396,413 was invested in capital assets, net of related debt, leaving a deficit of \$792,306 as unrestricted net position. The decrease in the unrestricted net position deficit at the end of 2021 is mainly 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 every year since 2015.
- Debt related to capital assets includes the nondepreciated balance of all capital assets paid for by the Trusts at the time the assets were purchased, a total of \$175,837 as of December 31, 2021, compared to \$117,268 at December 31, 2020. 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.
- Net position increased \$73,943 from an operating surplus realized during the year ended December 31, 2021. This was due to a significant grant award offset by an adjustment of \$69,489 to the VMERS DB pension expense to account for VLCT's share of the net pension liability. This expense is significantly decreased from the 2020 pension expense of \$336,734.

Vermont League of Cities and Towns

Management's Discussion and Analysis (Unaudited)

Years ended December 31, 2021 and 2020

Highlights (Continued)

Total revenue in 2021 is \$129,632 higher than in 2020 primarily due to new grant revenue offset by lower trust revenue. VLCT received grant revenue of \$50,000 from the Vermont Community Foundation for equity training and \$225,000 from the Agency of Commerce and Community Development for American Rescue Plan Act (ARPA) coordination, while trust agreement revenue was down due to staff turnover. In 2020, total revenue was \$151,890 higher than in 2019 primarily due to an increase in trust agreement revenue to fund a new position (claim attorney for PACIF). Budget to actual in 2020 shows a small shortfall of \$20,585 due mainly to decreased workshop and town fair revenue resulting from COVID restrictions.

As of December 31, 2021, total expenses were \$91,208 lower than the prior year and exceeded budget by \$102,133 largely due to the GASB 68 pension adjustment which is not budgeted. Total expenses in 2020 exceeded prior year by \$9,730 and exceeded budget by \$125,741, both due to the GASB 68 pension adjustment which is not budgeted.

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)

Years ended December 31, 2021 and 2020

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, 2021 and 2020 and financial developments during the years ended December 31, 2021 and 2020 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)

Years ended December 31, 2021 and 2020

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 (unaudited) 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)

Years ended December 31, 2021 and 2020

Results and Analysis

The following table summarizes the Statements of Net Position:

	December 31, 2021	December 31, 2020	Percentage Change	December 31, 2019	Percentage Change
Assets					
Current assets	\$ 2,164,710	\$ 1,874,131	15.5 %	\$ 1,570,664	19.3 %
Capital assets	<u>449,002</u>	<u>520,736</u>	(13.8)%	<u>646,864</u>	(19.5)%
Total Assets	2,613,712	2,394,867	9.1 %	2,217,528	8.0 %
Deferred Outflows of Resources					
Deferred pension amounts	583,387	878,482	(33.6)%	508,163	72.9 %
Liabilities					
Current payables and accruals	164,412	158,996	3.4 %	159,578	(0.4)%
Current deferred revenue	708,753	651,142	8.8 %	702,744	(7.3)%
Accrued compensated absences	212,674	240,888	(11.7)%	181,627	32.6 %
Non-current liabilities	<u>1,529,774</u>	<u>2,516,386</u>	(39.2)%	<u>1,862,845</u>	35.1 %
Total Liabilities	<u>2,615,613</u>	<u>3,567,412</u>	(26.7)%	<u>2,906,794</u>	22.7 %
Deferred Inflow of Resources					
Deferred pension expenses	<u>903,436</u>	<u>101,830</u>	787.2 %	<u>67,892</u>	50.0 %
Net Position, End of Year	<u>\$ (321,950)</u>	<u>\$ (395,893)</u>	18.7 %	<u>\$ (248,995)</u>	59.0 %

Total assets as of December 31, 2021 were \$2,613,712, up from \$2,394,867 as of December 31, 2020. This increase of \$218,845 or 9% is due to an increase in cash from operations offset by a decrease in capital assets. In 2020, total assets increased by \$177,339 or 8% primarily due to an increase in cash from operations offset by a decrease in capital assets. In 2021, deferred outflows of pension amounts (the future value of contributions paid after the June 30th reporting date of the actuarial report) decreased by \$295,095, or 34% due to the forecasted rate increases.

As of December 31, 2021, total liabilities decreased by \$951,799 or 27% from this time last year primarily due to the decrease in the net pension liability. In 2020 total liabilities increased by \$660,618 or 23% from the prior year primarily due to the increase in the net pension liability. In 2021, deferred inflows or pension expenses (future value of earnings, changes in assumptions and differences between expected and actual experience) has increased \$801,606 or 787.2% due primarily to the changes in assumptions, including a reduction in the investment earnings rate from 7.5% to 7%.

Vermont League of Cities and Towns

Management's Discussion and Analysis (Unaudited)

Years ended December 31, 2021 and 2020

Results and Analysis (Continued)

Net position increased by \$73,943 during the year ended December 31, 2021 primarily from American Rescue Plan Act (ARPA) grant revenue, decrease in depreciation and reduction in the VMERS DB pension expense from \$336,734 to \$69,489, offset by an increase in salaries and increase in other expenses related to the grants. VLCT's proportionate share of VMERS DB liability is \$1,409,947 with \$583,387 in deferred outflows of resources and \$903,436 in deferred inflows of resources. The VMERS DB total pension expense for 2021 of \$286,490 is the estimated expense inclusive of VLCT's share of the pension fund's unfunded liability.

By comparison, net position in 2020 decreased by \$146,898 from an adjustment of \$336,734 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 \$2,437,159 with \$878,482 in deferred outflows of resources and \$101,830 in deferred inflows of resources. The VMERS DB total pension expense for 2020 of \$543,812 is the estimated expense inclusive of VLCT's share of the pension fund's unfunded liability.

Vermont League of Cities and Towns

Management's Discussion and Analysis (Unaudited)

Years ended December 31, 2021 and 2020

Results and Analysis (Continued)

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

	December 31, 2021	December 31, 2020	Percentage Change	December 31, 2019	Percentage Change
Operating Revenues					
Member dues	\$ 1,178,471	\$ 1,159,165	1.7 %	\$ 1,114,827	4.0 %
Services	119,976	88,408	35.7 %	233,254	(62.1)%
Trusts	5,010,654	5,264,827	(4.8)%	5,011,648	5.1 %
Commission income	95,003	-	- %	-	- %
Sponsorships	48,949	-	- %	-	- %
Other revenue	<u>294,437</u>	<u>100,658</u>	192.5 %	<u>101,439</u>	(0.8)%
Total operating revenues	6,747,490	6,613,058	2.0 %	6,461,168	2.4 %
Operating Expenses					
Combined cost centers	6,504,213	6,535,650	(0.5)%	6,561,424	(0.4)%
Capital costs	<u>170,922</u>	<u>230,694</u>	(25.9)%	<u>195,190</u>	18.2 %
Total operating expenses	6,675,135	6,766,344	(1.3)%	6,756,614	0.1 %
Operating gain (loss)	72,355	(153,286)	85.2 %	(295,446)	48.1 %
Non-Operating Revenues	<u>1,588</u>	<u>6,388</u>	(75.1)%	<u>14,670</u>	(56.5)%
Change in Net Position	73,943	(146,898)	(150.3)%	(280,776)	47.7 %
Net Position, Beginning of Year	<u>(395,893)</u>	<u>(248,995)</u>	59.0 %	<u>31,781</u>	(883.5)%
Net Position, End of Year	<u>\$ (321,950)</u>	<u>\$ (395,893)</u>	(18.7)%	<u>\$ (248,995)</u>	(59.0)%

Vermont League of Cities and Towns

Management's Discussion and Analysis (Unaudited)

Years ended December 31, 2021 and 2020

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 41 - 44 for the year ended December 31, 2021:

	Budget	Actual	Percentage Over (Under) Budget
Operating Revenues			
Member dues	\$ 1,194,095	\$ 1,227,420	2.8 %
Services	193,583	119,976	(38.0)%
Trusts	5,053,349	5,010,654	(0.8)%
Commissions	107,437	95,003	(11.6)%
Other revenue	<u>18,533</u>	<u>294,437</u>	1,488.7 %
Total operating revenues	6,566,997	6,747,490	2.7 %
Operating Expenses			
Combined cost centers **	6,386,531	6,504,213	1.8 %
Capital costs	<u>186,471</u>	<u>170,922</u>	(8.3)%
Total operating expenses	6,573,002	6,675,135	1.5 %
Operating (loss) revenue	(6,005)	72,355	(1,304.9)%
Non-Operating Revenues	<u>6,960</u>	<u>1,588</u>	(77.2)%
Change in Net Position	<u>\$ 955</u>	<u>\$ 73,943</u>	

** 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 surplus of \$73,943. Operating revenues increased by \$134,434 or 2% from the prior year and were higher than budgeted by \$180,493 or 2.7%. Operating expenses decreased by \$91,204 or -1.3% from prior year and were higher than budgeted by \$102,134 or 1.5%.

During the year ended December 31, 2020, VLCT had an overall deficit of \$146,898. Operating revenues were down 2%, a total of \$151,890 from the prior year and lower than budgeted by 0.3% or \$20,585. Operating expenses were up from the prior year by 0.1% or \$9,730 and higher than budgeted by 2% or \$125,496.

Vermont League of Cities and Towns

Management's Discussion and Analysis (Unaudited)

Years ended December 31, 2021 and 2020

Results and Analysis (Continued)

In 2021, The decline in total expenses was primarily due to the GASB 68 pension expense adjustment falling by \$257,324. This was offset by increases in health insurance expense, staff travel, and contracted services expenses for diversity, equity, and inclusion training as well as a new lockbox payment processing service.

Revenues increased 2% in 2021 as a result of new grant revenue and the transfer of commission income related to the Hickock and Boardman HBRIQ program from the VERB trust to VLCT. This was offset by lower trust reimbursements due to staff turnover.

In 2020, the revenue shortfall of \$20,585 was due to lower services revenue offset by higher than budgeted trust reimbursements. The services revenue was lower due to COVID-19 restrictions, which affected registrations and consulting contracts. Expenses in 2020 exceeded budget by 2% or \$125,741 due primarily to the pension adjustment of \$336,734. Salaries exceeded budget by \$142,916 due to the unbudgeted expense of the new attorney, however, this was paid by PACIF through the trust reimbursement revenue line.

Other notable variances of 2021 revenues and expenses from budget or changes from the prior year include:

- Supplies, travel, officers expenses, and services were all significantly under budget due to continued COVID-19 restrictions in 2021. Workshops were virtual through 2021 and member outreach was limited. These categories combined were \$149,121 under budget and only \$4,374 more than in the previous year.
- Contracted services costs exceeded budget by \$54,198 or 110% due to diversity, equity, and inclusion (DEI) training and recruitment expenses. The DEI training was offset by grant revenue, while the recruitment expenses were related to higher than usual turnover, including the Executive Director position.
- Salary expense was over budget as a result hiring the new ARPA Director, however, this position was funded by new grant revenue. The use of temporary services in Finance also contributed to the overage in the salary expense line.

Vermont League of Cities and Towns

Management's Discussion and Analysis (Unaudited)

Years ended December 31, 2021 and 2020

Outlook and Economic Factors

Despite the unprecedented pressures of the extended pandemic, VLCT emerged from 2021 in a strong financial position and ready to serve our members today and into the future. We retained 100 percent membership through uncertain financial times of all 246 cities and towns – demonstrating the tremendous value we provide our members. Our staff weathered transition as a new Executive Director and new CFO joined the organization – providing institutional knowledge, stability and certainty while embracing challenges to the status quo and new ideas. And our partners looked to VLCT to provide more services, such as help navigating the American Rescue Plan Act -- indicating potential future opportunities for growth.

The need for state municipal associations seems to have never been greater. We continue to field a record number of municipal inquiries (about 4,000 a year), weigh in on an astronomical amount of newly introduced legislation (1,035 bills introduced in the last biennium, including 161 that impacted local government in 2022), and evaluate and respond to new challenges to running local government (like cybersecurity). A majority of VLCT's staff work for VLCT's risk pools – where they continue to be excellent stewards of member contributions resulting in a strong net position, reasonable contribution rates, and excellent customer service. VLCT will proactively anticipate our members needs and ensure the organization remains a good value. In 2021, VLCT conducted a strategic planning process that was anchored by a membership survey and a series of listening sessions that touched nearly 400 member contacts. VLCT's leadership team, staff, and board all provided input in the process. The result was a five-year strategic plan entitled: "VLCT's Plan to Support Vibrant Local Government." VLCT is committed to building upon the four cornerstone goals of that plan:

- Grow a sustainable and relevant member-focused organization
- Strengthen the capacity of local government
- Develop and attract outstanding talent to local government
- Champion inclusive and resilient communities

Executing our strategic plan will be our highest priority, though we anticipate unforeseen external factors to challenge our efforts and force us to adapt. As an example, the economic uncertainty around inflationary pressures on our own operations and the operations of our members will likely require us to work within a more constrained budget than anticipated. And the increasing workforce shortage will undoubtedly require us to spend more time and effort retaining the incredible team currently working at VLCT.

Vermont League of Cities and Towns

Management's Discussion and Analysis (Unaudited)

Years ended December 31, 2021 and 2020

Outlook and Economic Factors (Continued)

Embedded in nearly every goal, objective and tactic of the strategic plan is an underlying commitment to increase efficiencies, increase services, and increase and diversify revenues. VLCT is investing in new technology, an association management system, to improve our member database and member interactions. This major investment will not only allow VLCT to better serve the member, but also allow us to report back to the member exactly how we have helped them. VLCT is also working to expand services. In 2021, VLCT began the process of hiring its first fulltime government finance specialist. In 2022, VLCT will expand its consulting services to include more recruitment assistance, strategic planning assistance, and new training offerings. Continuing a trend in 2021, we will focus on increasing non-dues revenue by soliciting additional participation from businesses, non-profits and other stakeholders in the Business Alliance Program. We'll also continue to seek significant grants to maintain and expand services. Between 2020 and 2021, VLCT secured grants for \$50,000 from the Vermont Community Foundation to conduct equity work and \$650,000 from the Vermont Agency of Commerce and Community Development to help members navigate the American Rescue Plan Act. This was a major change from past VLCT grant work. In 2022, we've already secured another \$250,000 to expand our federal assistance program. These efforts, combined with the roadmap of our strategic plan, reflect our mission very well: to serve and strengthen Vermont local government.

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, 2021 and 2020

	2021	2020
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,018,107	\$ 1,499,773
Accounts receivable	111,881	129,967
Amounts due from trusts	4,735	59,836
Prepaid expenses	29,987	184,555
Total current assets	2,164,710	1,874,131
Non-Current Assets		
Capital assets (net of accumulated depreciation)	449,002	520,736
Total Assets	2,613,712	2,394,867
Deferred Outflows of Resources		
Deferred pension amounts	583,387	878,482
Total Deferred Outflows of Resources	583,387	878,482
Liabilities and Net Position		
Liabilities		
Current Liabilities		
Accounts payable	70,450	90,650
Amounts due to trusts	-	168
Accrued payroll	93,962	68,178
Accrued compensated absences	212,674	240,888
Deferred revenue	652,743	606,046
Deferred revenue - trusts	56,010	45,096
Total current liabilities	1,085,839	1,051,026
Non-Current Liabilities		
Line of credit	-	7,055
Deferred revenue - trusts	119,827	72,172
Net pension liability	1,409,947	2,437,159
Total non-current liabilities	1,529,774	2,516,386
Total Liabilities	2,615,613	3,567,412
Deferred Inflow of Resources		
Deferred pension expenses	903,436	101,830
Total Deferred Inflow of Resources	903,436	101,830
Net Position		
Net investment in capital assets	273,165	396,413
Unrestricted	(595,115)	(792,306)
Total Net Position	\$ (321,950)	\$ (395,893)

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, 2021 and 2020

	2021	2020
Operating Revenues		
Dues - regular	\$ 1,049,133	\$ 1,022,265
Dues - associate	129,338	124,164
Dues - contributing	-	12,736
Commission income	95,001	-
Sponsorships	48,949	-
Town fair	11,684	28,829
Publications	9,099	5,374
Workshops	23,577	20,441
Professional services	62,648	30,343
Administrative services	14,000	11,423
Newsletter advertising	12,968	3,421
Trust contracts	4,922,363	5,068,584
PACIF loss prevention contract	55,000	55,000
Equipment revenue from trusts	33,291	141,243
Grants	275,000	59,860
Other revenues	5,439	29,375
	6,747,490	6,613,058
Total operating revenues		
Operating Expenses		
Salaries	3,902,238	3,866,991
Employee benefits	1,422,568	1,588,393
Office space	504,323	494,065
Office equipment	336,571	329,809
Communications	104,322	76,191
Printing and supplies	6,132	14,125
Travel and training	33,324	23,440
Officers' costs	21,620	21,729
Contracted services	103,300	55,006
Dues and subscriptions	47,648	45,707
Town fair	8,657	5,872
Workshops	-	8,999
Administrative services	11,391	2,574
Depreciation	170,922	230,694
Other expenses	2,119	2,749
	6,675,135	6,766,344
Total operating expenses		
Operating income (loss)	72,355	(153,286)
Non-Operating Revenues		
Investment income	1,588	6,388
Change in Net Position	73,943	(146,898)
Net Position, Beginning of Year	(395,893)	(248,995)
Net Position, End of Year	\$ (321,950)	\$ (395,893)

See accompanying notes to the financial statements.

Vermont League of Cities and Towns

Statements of Cash Flows

Years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities		
Receipts from membership dues	\$ 1,225,168	\$ 1,199,294
Receipts from commissions	95,001	-
Receipts from sponsorships	48,949	-
Receipts from trusts	5,124,156	5,065,835
Receipts from grants	275,000	59,860
Other receipts	157,501	118,334
Payments for salaries and benefits	(5,257,747)	(5,042,186)
Payments to vendors	<u>(1,045,039)</u>	<u>(1,089,934)</u>
Net cash flows from operating activities	622,989	311,203
Cash Flows from Financing Activities		
Receipts from sales of capital assets	-	75
Purchase of capital assets	(99,188)	(104,566)
Payments on line of credit	<u>(7,055)</u>	<u>(5,403)</u>
Net cash flows from financing activities	(106,243)	(109,894)
Cash Flows from Investing Activities		
Net receipts for interest	<u>1,588</u>	<u>6,388</u>
Net Change in Cash and Cash Equivalents	518,334	207,697
Cash and Cash Equivalents, Beginning of Year	<u>1,499,773</u>	<u>1,292,076</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 2,018,107</u></u>	<u><u>\$ 1,499,773</u></u>

See accompanying notes to the financial statements.

Vermont League of Cities and Towns

Statements of Cash Flows (Continued)

Years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Reconciliation of Operating Income (Loss) to Net Cash flows from Operating Activities		
Operating income (loss)	\$ 72,355	\$ (153,286)
Add (deduct) items not affecting cash:		
Depreciation expense	170,922	230,694
Net loss on sale of equipment	-	(75)
Changes in statement of net position accounts:		
Accounts receivable	18,086	(10,797)
Amounts due from trusts	55,101	(59,836)
Prepaid expenses	154,568	(25,137)
Deferred pension amounts	295,095	(370,319)
Accounts payable	(20,200)	15,469
Amounts due to trusts	(168)	(27,943)
Accrued payroll	25,784	17,203
Accrued compensated absences	(28,214)	59,261
Deferred revenue	46,697	40,129
Deferred revenue - trusts	58,569	(111,213)
Net pension liability	(1,027,212)	673,115
Deferred pension expenses	<u>801,606</u>	<u>33,938</u>
Net cash provided by operating activities	<u>\$ 622,989</u>	<u>\$ 311,203</u>

See accompanying notes to the financial statements.

Vermont League of Cities and Towns

Notes to the Financial Statements

Years ended December 31, 2021 and 2020

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 (the members) 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 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 the financial statements for subsequent events through October 3, 2022, the date that the 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)

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform with the current year presentation. These changes had no effect on net position as of December 31, 2020 or change in net position for the year then ended.

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, 2021 and 2020, significant estimates included in these financial statements primarily relate to the net pension liability (including the discount rate used and other assumptions) and the related deferred inflows and outflows of resources, as more fully described in Note I.

Membership Dues

Membership dues are recognized on a straight-line basis over the membership year to which they relate, with any unearned amounts recorded as deferred revenue as more fully described in Note F.

Trust Contract Revenue

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, the Trusts. In 2020, PACIF also reimbursed for specific claims handling services provided by an employee of VLCT. Revenues are deferred for services or events to take place in subsequent years as more fully described in Notes E and F.

Commission Income

VLCT receives commission income for facilitating the placement of health coverage, dental coverage, vision coverage, group and voluntary life and disability insurance effective January 1, 2021. Prior to this date, this service was provided through VERB.

Grants

VLCT was awarded a grant from the State of Vermont Agency of Commerce and Community Development, Department of Housing and Community Development for \$650,000 with an award start date of May 1, 2021 and end date of April 30, 2024. This grant is to support municipal and regional planning and related activities (ARPA Municipal Coordination and assistance program). VLCT received \$225,000 during 2021 which was recognized in income. VLCT also received and recognized a \$50,000 grant from the Vermont Community Foundation to support the increase in resources and understanding for Vermont communities around equity, inclusion, and racial justice through VLCT's workplan and equity committee priorities. In 2020, VLCT received and recorded through income a \$50,000 grant from Vermont Department of Environmental Conservation. Grants are recognized based on the award agreements requirements.

Vermont League of Cities and Towns

Notes to the Financial Statements (Continued)

Note B - Summary of Significant Accounting Policies (Continued)

Sponsorship Revenues

Sponsorship revenues are recognized on a straight line basis based on the sponsorship agreement terms.

Other Revenues

Other revenues are recognized when the service is provided.

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:

	2021		2020	
	Book Balance	Bank Balance	Book Balance	Bank Balance
Insured/FDIC	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000
Unsecured and collateralized	1,767,807	1,551,054	1,249,473	1,389,969
Petty cash	300	-	300	-
Total	<u>\$ 2,018,107</u>	<u>\$ 1,801,054</u>	<u>\$ 1,499,773</u>	<u>\$ 1,639,969</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.

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, 2021 and 2020, and VLCT did not write off any amounts during 2021 and 2020.

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, 2021 and 2020:

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

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.

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, 2021 and 2020.

Vermont League of Cities and Towns

Notes to the Financial Statements (Continued)

Note B - Summary of Significant Accounting Policies (Continued)

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.

Note C - Capital Assets

Capital asset activity for the year ended December 31, 2021 is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets at cost:				
Leasehold improvements	\$ 47,295	\$ -	\$ -	\$ 47,295
Computer equipment	1,551,474	99,188	-	1,650,662
Other equipment	190,874	-	-	190,874
Furniture & fixtures	348,000	-	-	348,000
Vehicles	151,723	-	-	151,723
Total capital assets at cost	2,289,366	99,188	-	2,388,554
Less: accumulated depreciation	(1,768,630)	-	-	(1,768,630)
Less: depreciation expense	-	-	-	(170,922)
Total net capital assets	<u>\$ 520,736</u>	<u>\$ 99,188</u>	<u>\$ -</u>	<u>\$ 449,002</u>

Vermont League of Cities and Towns

Notes to the Financial Statements (Continued)

Note C - Capital Assets (Continued)

Capital asset activity for the year ended December 31, 2020 is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets at cost:				
Leasehold improvements	\$ 47,295	\$ -	\$ -	\$ 47,295
Computer equipment	1,446,908	104,566	-	1,551,474
Other equipment	190,874	-	-	190,874
Furniture & fixtures	348,000	-	-	348,000
Vehicles	200,017	-	(48,294)	151,723
Total capital assets at cost	2,233,094	104,566	(48,294)	2,289,366
Less: accumulated depreciation	(1,586,230)	-	48,294	(1,537,936)
Less: depreciation expense	-	-	-	(230,694)
Total net capital assets	<u>\$ 646,864</u>	<u>\$ 104,566</u>	<u>\$ -</u>	<u>\$ 520,736</u>

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 \$29,074 and \$28,227 for the years ended December 31, 2021 and 2020, respectively, and are included in office space expense on the statements of revenues, expenses and changes in net position. As of December 31, 2021, future minimum lease payments are as follows:

	Amount
2022	\$ 359,352
2023	370,132
2024	381,236
2025	392,673
2026	404,453
Total	<u>\$ 1,907,846</u>

Note E - Affiliated Organizations and Related Party Transactions

Per contractual agreements, VLCT provides administrative services, office space and equipment usage to VERB and PACIF.

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, 2021 is as follows:

	VERB	PACIF	Total
Salaries - allocated directly	\$ 84,878	\$ 1,756,120	\$ 1,840,998
Salaries - administration	27,317	928,740	956,057
Employee benefits - allocated directly	39,827	699,809	739,636
Employee benefits - administration	9,669	292,502	302,171
Office space	13,247	400,733	413,980
Office equipment	10,610	320,960	331,570
Communications	1,450	43,847	45,297
Printing and supplies	1,171	35,427	36,598
Travel and training	818	24,754	25,572
Officers' costs	975	29,485	30,460
Contracted services	1,378	41,694	43,072
Dues and subscriptions	1,243	37,597	38,840
Miscellaneous	1,180	35,695	36,875
Other	2,600	78,637	81,237
	<u>2,600</u>	<u>78,637</u>	<u>81,237</u>
Total trust contracts revenue	<u>\$ 196,363</u>	<u>\$ 4,726,000</u>	<u>\$ 4,922,363</u>

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, 2020 is as follows:

	<u>VERB</u>	<u>PACIF</u>	<u>Total</u>
Salaries - allocated directly	\$ 156,607	\$ 1,748,975	\$ 1,905,582
Salaries - administration	39,880	768,803	808,683
Employee benefits - allocated directly	59,564	654,855	714,419
Employee benefits - administration	13,491	306,114	319,605
Office space	18,310	388,587	406,897
Office equipment	7,774	306,640	314,414
Communications	2,202	58,194	60,396
Printing and supplies	2,801	48,178	50,979
Travel and training	2,360	46,368	48,728
Officers' costs	1,205	29,179	30,384
Contracted services	1,632	38,769	40,401
Dues and subscriptions	1,284	44,389	45,673
Miscellaneous	1,443	48,678	50,121
Other	4,814	102,164	106,978
Claims handling (separate charge)	-	165,324	165,324
Total trust contracts revenue	<u>\$ 313,367</u>	<u>\$ 4,755,217</u>	<u>\$ 5,068,584</u>

VLCT's net receivable from the trusts consists of the following as of December 31, 2021:

	<u>VERB</u>	<u>PACIF</u>	<u>Total</u>
Amounts due from trusts	\$ -	\$ 4,735	\$ 4,735
Amounts due to trusts	-	-	-
Net amounts due (to) from trusts	<u>\$ -</u>	<u>\$ 4,735</u>	<u>\$ 4,735</u>

VLCT's net payable from the trusts consists of the following as of December 31, 2020:

	<u>VERB</u>	<u>PACIF</u>	<u>Total</u>
Amounts due from trusts	\$ -	\$ 59,836	\$ 59,836
Amounts due to trusts	(168)	-	(168)
Net amounts due from (to) trusts	<u>\$ (168)</u>	<u>\$ 59,836</u>	<u>\$ 59,668</u>

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 2021 and 2020.

Vermont League of Cities and Towns

Notes to the Financial Statements (Continued)

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

VLCT purchases unemployment insurance for its employees through VERB. Contributions paid by VLCT to VERB for unemployment insurance amounted to \$11,625 and \$8,084 for the years ended December 31, 2021 and 2020, 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:

	2021	2020
Deferred membership dues	\$ 586,583	\$ 602,488
Deferred revenue - trusts	175,837	117,268
Deferred sponsorship	62,665	-
Other deferred revenue	3,495	3,558
Total deferred revenue	\$ 828,580	\$ 723,314

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.

Sponsorship revenues are recognized on a straight line basis based on the sponsorship agreement terms. Unearned amounts are recorded as deferred revenue.

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:

	2021	2020
Deferred revenue - trusts, beginning of year	\$ 117,268	\$ 228,481
Add: reimbursement for new assets	91,860	30,030
Less: current depreciation	(33,291)	(141,243)
Deferred revenue - trusts, end of year	\$ 175,837	\$ 117,268

Vermont League of Cities and Towns

Notes to the Financial Statements (Continued)

Note G - Net Position

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

	<u>2021</u>	<u>2020</u>
Capital assets at cost	\$ 2,388,554	\$ 2,289,366
Less: accumulated depreciation	(1,939,552)	(1,768,630)
Line of credit	-	(7,055)
Deferred revenue - trusts	<u>(175,837)</u>	<u>(117,268)</u>
Net investment in capital assets	<u>\$ 273,165</u>	<u>\$ 396,413</u>

There are no restricted uses of net positions as of December 31, 2021 and 2020.

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. As of December 31, 2020, outstanding borrowings on the line of credit were \$7,055. As of December 31, 2021 the line of credit has been paid in full and there are no more outstanding borrowings on the line of credit.

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 plan years ending June 30, 2022 and 2021, and a 5.125% contribution by the employer for the plan years ending June 30, 2022 and 2021. 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, 2021, covered payroll was \$226,151 and VLCT's contribution was \$11,592. For the year ended December 31, 2020, covered payroll was \$185,963 and VLCT's contribution was \$9,912.

Vermont League of Cities and Towns

Notes to the Financial Statements (Continued)

Note I - Benefit Plans (Continued)

VMERS Defined Benefit Plan

Plan Description

VLCT also participates in the VMERS defined benefit plan (Plan DB). Plan DB requires a 5.625% and 5.375% contribution by the employee for plan years ending June 30, 2022 and 2021, respectively, and a 6.250% and 6.000% contribution by the employer for the plan years ending June 30, 2022 and 2021, respectively. Plan DB is a cost-sharing, multiple-employer defined benefit pension plan that is administered by the Vermont 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. Benefits available to each group are based on average final compensation (AFC) and years of creditable service.

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, 2021 and 2020, the retirement system consisted of 352 and 353 participating employers, respectively.

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. A Board Member of VERB is on 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.

Vermont League of Cities and Towns

Notes to the Financial Statements (Continued)

Note I - Benefit Plans (Continued)

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:

System Provisions and Benefits	Group B
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	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
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%

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

Vermont League of Cities and Towns

Notes to the Financial Statements (Continued)

Note I - Benefit Plans (Continued)

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

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, 2021 and June 30, 2020.

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 year ended June 30, 2021, Plan DB requires a 5.625% contribution by the employee and a 6.250% contribution by the employer for Group B. For the plan year ended June 30, 2020, Plan DB requires a 5.375% contribution by the employee and a 6.000% 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:

	2021	2020
Contractually required contributions	\$ 212,984	\$ 199,669
Contributions in relation to the contractually required contributions	168,973	207,078
Contribution deficiency (excess)	\$ 44,011	\$ (7,409)
VLCT's covered payroll	\$ 3,543,954	\$ 3,525,162
Contributions as a percentage of covered payroll	4.77 %	5.87 %

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, 2021, VLCT reported a liability of \$1,409,947 and a pension expense of \$286,488, which is included in employee benefits, for its proportionate share of the VMERS Plan DB net pension liability. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The pension expense is included as a component of employee benefits on the statement of revenues, expenses and changes in net position.

As of and for the year ended December 31, 2020, VLCT reported a liability of \$2,437,159 and a pension expense of \$543,812 for its proportionate share of the VMERS Plan DB net pension liability. The net pension liability was measured as of June 30, 2020, 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, 2021, VLCT's proportion was 0.95795%, which was a decrease of 0.00545 percentage points from its proportion measured as of June 30, 2020. At June 30, 2020, VLCT's proportion was 0.96340%, which was a decrease of 0.05340 percentage points from its proportion measured as of June 30, 2019.

Deferred Outflows and Inflows of Resources

As of and for the years ended December 31, 2021 and 2020, VLCT reported its proportionate share of Plan DB's deferred outflows of resources related to pensions from the following sources:

<u>Sources of Deferred Outflows of Resources</u>	<u>2021</u>	<u>2020</u>
Difference between expected and actual economic experience	\$ 262,789	\$ 219,493
Changes in assumptions and other inputs	222,863	326,746
Net difference between projected and actual earnings on plan investments	-	233,094
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>-</u>	<u>1,415</u>
Total allocated deferred pension amounts	485,652	780,748
Contributions paid to Plan DB subsequent to the measurement date	<u>97,735</u>	<u>97,734</u>
Total deferred pension amounts	<u>\$ 583,387</u>	<u>\$ 878,482</u>

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 \$0, changes in proportion and differences between employer contributions and proportionate share of contributions of \$72,092 and a difference between projected and actual earnings of \$831,344 as of December 31, 2021. There were deferred inflows of resources related to differences between expected and actual experience of \$7,224 and changes in proportion and differences between employer contributions and proportionate share of contributions of \$94,606 as of December 31, 2020.

The net amounts of VLCT's balances of net deferred outflows of resources as of December 31, 2021 related to pensions will be recognized as pension expense as follows during the years ended December 31:

	Pension Expense
	<u>Amount</u>
2022	\$ 32,246
2023	54,676
2024	104,410
2025	<u>226,452</u>
Total	<u>\$ 417,784</u>

Actuarial Methods and Assumptions

The total pension liability for the June 30, 2021 measurement date was determined by an actuarial valuation as of June 30, 2020 with update procedures used to roll forward the total pension liability to June 30, 2021.

The total pension liability for the June 30, 2020 measurement date was determined by an actuarial valuation as of June 30, 2019 with update procedures used to roll forward the total pension liability to June 30, 2020.

Vermont League of Cities and Towns

Notes to the Financial Statements (Continued)

Note I - Benefit Plans (Continued)

The significant assumptions and methods used in the actuarial valuation for the June 30, 2021 measurement period are as follows:

Investment rate of return:	7.00%
Salary increases:	Varying service-based rates from 0-10 years of service, then a single rate of 4.50% (includes assumed inflation rate of 2.30%) for all subsequent years,
Deaths:	40% of PubG-2010 General Employee below-median and 60% of PubG-2010 General Employee, with generational projection using Scale MP-2019.
Actuarial cost method:	Entry age Normal cost method
Cost-of-living adjustments to benefits of terminated vested and retired participants:	Assumed to occur at the rate of 1.20% per annum.
Inflation:	2.30%

Vermont League of Cities and Towns

Notes to the Financial Statements (Continued)

Note I - Benefit Plans (Continued)

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 for each major asset class included in the pension plan's target asset allocation as of June 30, 2021, and is summarized in the following table:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Passive Global Equities	24.00 %	5.05 %
Active Global Equities	5.00 %	5.05 %
US Equity - Large Cap	4.00 %	4.00 %
US Equity - Small/Med Cap	3.00 %	4.50 %
Non US Developed US Equities	7.00 %	5.50 %
Emerging Markets Debt	4.00 %	3.00 %
Core Fixed Bond	19.00 %	- %
Private and Alternate Credit	10.00 %	4.75 %
US TIPS	3.00 %	(0.50)%
Core Real Estate	4.00 %	3.75 %
Non-Core Real Estate	4.00 %	5.75 %
Private Equity	10.00 %	6.75 %
Infrastructure Farmland	3.00 %	4.25 %
Total	100.00 %	

The expected long-term real rates of return for these asset classes are calculated as the long-term nominal rates of return minus the expected long-term inflation rate of 2.3%.

Vermont League of Cities and Towns

Notes to the Financial Statements (Continued)

Note I - Benefit Plans (Continued)

Discount Rate

The discount rate used to measure the total pension liability as of June 30, 2021 and 2020 was 7.00%. The projection of cash flows used to determine the discount rate assumed plan member and employer contributions will be made at rates set by the Board (employers) and statute (members) with scheduled increases through July 1, 2022. Further, based upon Board resolution, projected contributions beginning July 1, 2022, and each subsequent July 1, through 2025 include additional total contribution increases of 0.50% per year. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions from future plan members, are not included. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefits payments of current plan members as of June 30, 2021. 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.

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.

Discount Rate Sensitivity Analysis

The following presents VLCT's proportionate share of the net pension liability, calculated using the discount rate of 7.0%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.0%) or one percentage point higher (8.0%) than the current rate at June 30, 2021:

	1% Rate Decrease (6.0%)	Current Discount Rate (7.0%)	1% Rate Increase (8.0%)
VLCT's Proportionate Share of the Net Pension Liability:	<u>\$ 2,786,838</u>	<u>\$ 1,409,946</u>	<u>\$ 277,737</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>

Vermont League of Cities and Towns

Notes to the Financial Statements (Continued)

Note I - Benefit Plans (Continued)

VMERS does not issue stand-alone financial reports, and Plan DB is instead included as a fiduciary fund in the State of Vermont's Annual Comprehensive Financial Report (ACFR). 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 ACFR, 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 2021, covered payroll under this plan was \$0 and VLCT's contribution was \$261,184. For the year ended December 31, 2020, covered payroll under this plan was \$3,681,366 and VLCT's contribution was \$20,570. For the year ended December 31, 2019, covered payroll under this plan was \$3,526,405 and VLCT's contribution was \$250,367.

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 June 30,	% 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
2017	1.1104%	\$ 1,345,333	\$ 3,222,390	41.75%	83.64%
2018	1.0453%	\$ 1,470,811	\$ 3,484,249	42.21%	82.60%
2019	1.0117%	\$ 1,764,044	\$ 3,436,492	51.33%	80.35%
2020	0.9634%	\$ 2,437,159	\$ 3,472,503	70.18%	74.52%
2021	0.9580%	\$ 1,409,947	\$ 3,524,558	40.00%	86.29%

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

Fiscal years ended December 31,	Actuarially determined contribution	Actual contribution	Contribution deficiency (excess)	Covered payroll	Actual contribution as a % of covered payroll
2017	\$ 181,342	\$ 177,231	\$ 4,111	\$ 3,222,390	5.50%
2018	\$ 181,132	\$ 193,863	\$ (12,731)	\$ 3,484,249	5.56%
2019	\$ 195,360	\$ 192,741	\$ 2,619	\$ 3,388,735	5.69%
2020	\$ 199,669	\$ 207,078	\$ (7,409)	\$ 3,525,162	5.87%
2021	\$ 212,984	\$ 168,973	\$ 44,011	\$ 3,543,954	4.77%

Other Information

Vermont League of Cities and Towns

Statement of Revenues and Expenses - Budgetary Basis (Unaudited)

Year ended December 31, 2021

	<u>Budget</u>	<u>Actual</u>	<u>Over/(Under) Budget</u>
Revenues			
Dues			
Regular members	\$ 1,042,845	\$ 1,049,133	\$ 6,288
Associate members	120,650	129,338	8,688
Total dues	1,163,495	1,178,471	14,976
Services			
Town fair	76,250	11,684	(64,566)
Publications	3,500	9,099	5,599
Workshops	63,448	23,577	(39,871)
Professional services	32,385	62,648	30,263
Newsletter advertising	8,000	12,968	4,968
Sponsorships	138,037	48,949	(89,088)
Total services	321,620	168,925	(152,695)
Administrative services			
Commission income	-	95,001	95,001
Administrative contracts	13,110	14,000	890
Grant	-	275,000	275,000
Total administrative services	13,110	384,001	370,891
Trust reimbursements			
Trust contracts	5,034,299	4,922,363	(111,936)
PACIF loss prevention contract	-	55,000	55,000
Equipment revenue from trusts	19,050	33,291	14,241
Total trust reimbursements	5,053,349	5,010,654	(42,695)
Other revenues	15,423	5,439	(9,984)
Investment income	6,960	1,588	(5,372)
Total Revenues	<u>\$ 6,573,957</u>	<u>\$ 6,749,078</u>	<u>\$ 175,121</u>

** 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, 2021

	Budget	Actual	Over/(Under) Budget
Expenses			
Salaries			
Salaries	\$ 3,723,308	\$ 3,809,823	\$ 86,515
Temp services	3,000	35,896	32,896
Payroll taxes	53,988	56,519	2,531
Total salaries	3,780,296	3,902,238	121,942
Employee benefits			
VMERS Plan DB	212,674	286,488	73,814
VMERS Plan DC	11,221	11,592	371
401(a) employer contributions	260,384	261,184	800
Health insurance	683,990	786,650	102,660
Long-term care insurance	8,078	7,977	(101)
Dental insurance	20,083	20,238	155
Life and disability insurance	38,055	33,594	(4,461)
Unemployment insurance	12,000	11,652	(348)
Employee assistance	1,080	1,080	-
Benefit plan administration	1,227	2,113	886
Total employee benefits	1,248,792	1,422,568	173,776
Office expenses			
Lease payments	348,885	348,885	-
Electricity	21,000	18,909	(2,091)
Building maintenance	15,720	15,006	(714)
Insurance - office	108,529	98,270	(10,259)
Property taxes	22,000	23,253	1,253
Total office expenses	516,134	504,323	(11,811)
Equipment expenses			
Equipment maintenance/lease	5,560	3,501	(2,059)
Non-capital equipment purchases	11,200	7,561	(3,639)
Equipment interest expense	-	157	157
Copier contracts	26,004	5,606	(20,398)
Software maintenance	341,465	310,267	(31,198)
Software purchases	6,000	9,479	3,479
Total equipment expenses	390,229	336,571	(53,658)

Vermont League of Cities and Towns

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

Year ended December 31, 2021

	<u>Budget</u>	<u>Actual</u>	<u>Over/(Under) Budget</u>
Expenses			
Communications			
Postage	42,000	27,675	(14,325)
Postage meter rental	1,000	1,923	923
Job printing	46,000	48,867	2,867
Telecommunications	<u>26,850</u>	<u>25,857</u>	<u>(993)</u>
Total communications	115,850	104,322	(11,528)
Printing and supplies			
Paper purchases	10,000	1,571	(8,429)
Supplies	6,000	4,561	(1,439)
Mailroom supplies	3,500	-	(3,500)
Building supplies	3,500	-	(3,500)
Coffee/water supplies	<u>2,200</u>	<u>-</u>	<u>(2,200)</u>
Total printing and supplies	25,200	6,132	(19,068)
Travel and training			
Vehicle expense	19,150	19,644	494
Staff travel/training	31,095	9,719	(21,376)
Member outreach	<u>7,550</u>	<u>3,961</u>	<u>(3,589)</u>
Total travel and training	57,795	33,324	(24,471)
Officers' expenses			
Board costs	32,350	21,620	(10,730)
President's stipend	<u>1,800</u>	<u>-</u>	<u>(1,800)</u>
Total officers' expenses	34,150	21,620	(12,530)
Contracted services			
Auditing and accounting	22,500	21,718	(782)
Bank services	14,100	12,675	(1,425)
Legal services	2,500	550	(1,950)
Consultants	5,000	40,500	35,500
Recruiting	<u>5,000</u>	<u>27,857</u>	<u>22,857</u>
Total contracted services	49,100	103,300	54,200
Dues and subscriptions			
National League of Cities	19,761	17,421	(2,340)
Professional associations	<u>33,324</u>	<u>30,227</u>	<u>(3,097)</u>
Total dues and subscriptions	53,085	47,648	(5,437)

Vermont League of Cities and Towns

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

Year ended December 31, 2021

	<u>Budget</u>	<u>Actual</u>	<u>Over/(Under) Budget</u>
Expenses			
Services			
Town fair	74,200	8,657	(65,543)
Workshops	28,900	-	(28,900)
Consulting	<u>10,000</u>	<u>11,391</u>	<u>1,391</u>
Total services	113,100	20,048	(93,052)
Miscellaneous			
Miscellaneous	2,800	2,119	(681)
Depreciation expense	<u>186,471</u>	<u>170,922</u>	<u>(15,549)</u>
Total miscellaneous	<u>189,271</u>	<u>173,041</u>	<u>(16,230)</u>
Total Expenses	<u>6,573,002</u>	<u>6,675,135</u>	<u>102,133</u>
Change in Net Position	<u>\$ 955</u>	<u>\$ 73,943</u>	<u>\$ 72,988</u>

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