

Vermont League of Cities and Towns

Audited Financial Statements  
with Supplementary Information

*Years ended December 31, 2015 and 2014  
with Report of Independent Auditors*

Vermont League of Cities and Towns

Audited Financial Statements  
with Supplementary Information

Years ended December 31, 2015 and 2014

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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, 2015 and 2014 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 opinion.

### **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, 2015 and 2014 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*

The accounting principles generally accepted in the United States require that the Management Discussion and Analysis on pages 4 - 15 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 other information on pages 39 - 42 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 cursive script that reads "Johnson Lambert LLP". The signature is written in black ink and is positioned to the right of the main text block.

Burlington, Vermont

August 2, 2016

Vermont firm registration: 092-0000267

# Vermont League of Cities and Towns

## Management Discussion and Analysis

Years ended December 31, 2015 and 2014

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, 2015, to be reviewed and considered in conjunction with the more detailed statements, schedules and notes in the ensuing pages of this report.

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). Prior to January 1, 2015, VERB was operating as two separate trusts: VLCT Unemployment Trust, Inc. (UI) and VLCT Health Trust, Inc. (HT). Collectively, these are referred to as "the Trusts".

### ***Highlights***

- Assets and deferred outflows of resources exceeded liabilities at the end of 2015 by \$257,970, of which \$445,132 was invested in capital assets, net of related debt, leaving a deficit of \$187,162 as unrestricted net position. This compares with a net position of \$579,482 at December 31, 2014, of which \$368,955 was invested in capital assets, net of related debt, leaving a surplus of \$210,527 as unrestricted net position. The deficit in unrestricted net position at the end of 2015 is attributable to the recording of VLCT's share of the net pension liability from the Vermont Municipal Employees Retirement System (VMERS) defined benefit pension plan as a result of the adoption of a new standard issued by the Governmental Accounting Standards Board (GASB), Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68).
- 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. 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. Debt related to capital assets also includes the remaining amount owed on capital lease obligations for capital assets that were acquired during 2014.
- Unrestricted net position at the end of 2015 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. The 2015 policy reduced the deductible amount from the \$75,000 reserved in 2014 to \$35,000 in 2015.

## Vermont League of Cities and Towns

### Management Discussion and Analysis (Continued)

#### *Highlights (Continued)*

- Net position decreased by \$321,512 from both an operating loss (\$46,037) during the year ended December 31, 2015 and from a cumulative effect of change in accounting principle (\$275,475) to account for the net pension liability beginning balance as of January 1, 2015. This was due to adjustments made to account for VLCT's share of the VMERS net pension liability. In 2014, the change in net position from operations was a surplus of \$99,332 and was primarily due to equipment and depreciation cost savings from budgeted amounts.
- Total revenue is \$60,017 less than budgeted primarily due to a reduction in trust reimbursements. The trusts experienced cost savings in salaries and benefits from staff turnover and a vacancy during the year. In addition, equipment reimbursement was less than anticipated due to delayed software implementations, thus reducing the amount of depreciation booked for the year.

#### *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 Unemployment Insurance Trust and VLCT Health Trust prior to January 1, 2015)
- VLCT Property and Casualty Intermunicipal Fund

Administrative staff includes employees working in the following departments:

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

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

## Vermont League of Cities and Towns

### Management Discussion and Analysis (Continued)

#### *Overview of the Financial Statements (Continued)*

that may be attributed to the trust budget for that employee. These costs are charged to the trusts and reimbursed to VLCT on a quarterly basis with quarterly reconciliations 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, 2015 and 2014 and financial developments during the years ended December 31, 2015 and 2014 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 of resources related to VLCT's participation in the VMERS defined benefit pension plan.

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 and the cumulative effect of changes in accounting principles 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.

## Vermont League of Cities and Towns

### Management Discussion and Analysis (Continued)

#### *Overview of the Financial Statements (Continued)*

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.

In addition to the basic financial statements and the accompanying notes, this report also presents certain supplementary information to provide additional financial information not included in the basic financial statements. This supplementary 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 supplementary information can be found immediately following the notes to the financial statements.

#### *Results and Analysis*

The following table summarizes the Statements of Net Position:

	December 31, 2015	December 31, 2014	Percentage Change	December 31, 2013	Percentage Change
<b>Assets</b>					
Current assets	\$ 1,033,052	\$ 1,017,319	1.5 %	\$ 994,964	2.2 %
Capital assets	<u>774,386</u>	<u>891,937</u>	(13.2)%	<u>505,738</u>	76.4 %
Total Assets	1,807,438	1,909,256	(5.3)%	1,500,702	27.2 %
<b>Deferred Outflows of Resources</b>					
Deferred pension amounts	479,220	-	- %	-	- %
<b>Liabilities</b>					
Current payables and accruals	347,387	297,494	16.8 %	168,917	76.1 %
Current deferred revenue	560,691	598,828	(6.4)%	586,189	2.2 %
Non-current liabilities	<u>1,120,610</u>	<u>433,452</u>	158.5 %	<u>265,446</u>	63.3 %
Total Liabilities	<u>2,028,688</u>	<u>1,329,774</u>	52.6 %	<u>1,020,552</u>	30.3 %
<b>Net Position, End of Year</b>	<u>\$ 257,970</u>	<u>\$ 579,482</u>	(55.5)%	<u>\$ 480,150</u>	20.7 %

Total assets at December 31, 2015 are \$1,807,438, down from \$1,909,256 at December 31, 2014. This decrease of \$101,818 or 5% is due to a decrease in capital assets. The cost of accumulated depreciation and the disposal of old assets exceeded the total value of new purchases, effectively reducing the total amount of capital assets.

## Vermont League of Cities and Towns

### Management Discussion and Analysis (Continued)

#### *Results and Analysis (Continued)*

As of December 31, 2015, total liabilities increased by \$698,914 or 53% from this time last year due to the initial recording of the net pension liability of \$838,683 to comply with GASB 68. This was somewhat offset by a decrease in deferred revenue attributable to the trusts as the cost of accumulated depreciation exceeded new equipment purchases for the trusts.

As indicated in the Highlights section, net position decreased by \$321,512 during the year ended December 31, 2015. GASB 68 requires the net pension liability of the state's pension program used by VLCT to be allocated amongst its members. As of December 31, 2015, VLCT's proportionate share of this liability is \$838,683 with \$479,220 in deferred outflows of resources. The difference between the net pension liability and the deferred outflows of resources is the amount booked as a reduction to net position. This is comprised of the amount booked as a cumulative effect of change in accounting principle of \$275,475 and pension expense for the current year of \$242,413. The cumulative effect adjustment is to record the net pension liability accumulated to VLCT prior to January 1, 2015.

## Vermont League of Cities and Towns

### Management Discussion and Analysis (Continued)

#### *Results and Analysis (Continued)*

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

	December 31, 2015	December 31, 2014	Percentage Change	December 31, 2013	Percentage Change
<b>Operating Revenues</b>					
Member dues	\$ 1,003,263	\$ 976,937	2.7 %	\$ 923,713	5.8 %
Services	230,272	253,599	(9.2)%	302,975	(16.3)%
Trusts	4,111,826	3,893,672	5.6 %	3,890,387	0.1 %
Other revenue	<u>122,492</u>	<u>115,810</u>	5.8 %	<u>84,663</u>	36.8 %
Total operating revenues	5,467,853	5,240,018	4.3 %	5,201,738	0.7 %
<b>Operating Expenses</b>					
Combined cost centers **	5,315,462	4,926,404	7.9 %	4,759,863	3.5 %
Capital costs	<u>199,587</u>	<u>215,243</u>	(7.3)%	<u>188,978</u>	13.9 %
Total operating expenses	5,515,049	5,141,647	7.3 %	4,948,841	3.9 %
Operating (loss) income	(47,196)	98,371	(148.0)%	252,897	(61.1)%
<b>Non-Operating Revenues</b>	<u>1,159</u>	<u>961</u>	20.6 %	<u>1,205</u>	(20.2)%
Change in Net Position	(46,037)	99,332	(146.3)%	254,102	(60.9)%
<b>Net Position, Beginning of Year</b>	579,482	480,150	20.7 %	226,048	112.4 %
Cumulative effect of change in accounting principle	<u>(275,475)</u>	<u>-</u>	(100.0)%	<u>-</u>	- %
<b>Net Position, End of Year</b>	<u>\$ 257,970</u>	<u>\$ 579,482</u>	(55.5)%	<u>\$ 480,150</u>	20.7 %

\*\* 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.

## Vermont League of Cities and Towns

### Management Discussion and Analysis (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 38 - 41:

	Budget	Actual	Percentage Variance
<b>Operating Revenues</b>			
Member dues	\$ 997,348	\$ 1,003,263	0.6 %
Services	273,313	230,272	(15.7)%
Trusts	4,169,418	4,111,826	(1.4)%
Other revenue	88,300	122,492	38.7 %
Total operating revenues	5,528,379	5,467,853	(1.1)%
<b>Operating Expenses</b>			
Combined cost centers **	5,327,628	5,315,462	(0.2)%
Capital costs	220,471	199,587	(9.5)%
Total operating expenses	5,548,099	5,515,049	(0.6)%
Operating (loss) income	(19,720)	(47,196)	139.3 %
<b>Non-Operating Revenues</b>			
	650	1,159	78.3 %
<b>Change in Net Position</b>			
	\$ (19,070)	\$ (46,037)	141.4 %

\*\* 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 \$46,037, with operating revenues lower than projected by \$60,526 (1%) and expenses lower than projected by \$33,050 (1%).

Comparing the results of VLCT's operations for the year ended December 31, 2015 to the year ended December 31, 2014, operating revenues were up by 4%, a total of \$227,835, and operating expenses were up by 7% or \$373,402. The change in operating results from 2013 to 2014 included a 1% or \$38,280 increase in revenue, offset by a 4% or \$192,806 increase in expenses.

The expense increase from 2014 to 2015 was primarily from a combination of annual salary and benefit adjustments and one new position (two were budgeted and only one filled during the year). In addition, office space and equipment costs were up due to the continued phase-in of the building renovations and technology upgrades. These also were the primary drivers of the revenue increase from 2014 to 2015 as they resulted in higher reimbursements from the trusts.

## Vermont League of Cities and Towns

### Management Discussion and Analysis (Continued)

#### *Results and Analysis (Continued)*

In 2015, the revenue shortfall from budget of 1% was primarily the result of a reduction in the amount reimbursed from PACIF for the administrative agreement. The reduction was from cost savings for salaries and benefits due to turnover and an unfilled position in the claims department. There was also a lower than anticipated depreciation expense from delayed software implementations that contributed to the lower than projected trust reimbursement.

Other notable variances of 2015 revenues from budget or changes from the prior year include:

- Professional services revenue was under budget by \$43,107 and less than 2014 by \$44,793 due to fewer municipal consulting jobs.
- Grant revenue exceeded budget by \$25,234 and the prior year by \$8,396 due to an unanticipated state grant from the Department of Health for Health Officer training.

Expenses in 2015 were below budget by 1% primarily due to savings in equipment costs. Equipment savings resulted from fewer and less expensive displays for the conference and huddle rooms; from savings realized for additional components for the new work stations; and from lower maintenance costs for new production equipment. Budgeted capital assets were purchased later in the year than anticipated, reducing the number of months to book depreciation. In total, equipment costs were below budget by \$33,643 or 18%.

Other notable variances of 2015 expenses from budget or changes from the prior year include:

- Salaries are under budget by \$23,398 or 1% due to a vacant claim adjuster position not filled during the year. As indicated above, this, along with the associated benefits, resulted in less revenue from PACIF in accordance with the trust administrative agreement.
- Communications costs were below budget by \$18,933 or 23% mainly due to a reduction in mailings as postal rates increased and more reliance was placed on email communications.
- Travel and training costs were under budget by \$12,697 or 29% from lower than anticipated conference attendance and reduced mileage for outreach to members. However, the total cost for 2015 increased by 10% over last year.
- Officers' expenses exceeded budget by \$15,361 or 48% primarily due to a combination of higher Board attendance and additional committee meetings for the Executive Director search and the Human Resources Consulting Program review.

## Vermont League of Cities and Towns

### Management Discussion and Analysis (Continued)

#### *Outlook and Economic Factors*

VLCT ended its 2015 fiscal year with a reduction to total net position as a result of new accounting guidelines requiring recognition of its share of the state pension plan's net pension liability. Without this adjustment, VLCT would have added approximately \$42,000 to net position from operations. Showing the individual employers' share of the VMERS net pension liability on employers' financial statements was the GASB's way of providing transparency to the impact of underfunding pension systems. That said, the funding of the system is based on decisions made by the VMERS Board of Trustees as well as the state legislature. Individual members of VMERS have limited control over the actions taken by the Board of Trustees and the state legislature. Excluding the change in the net pension liability, it is expected that we will continue to see modest operating surpluses in the future, with any large increases coming from unexpected expenditure savings or higher service revenues than budgeted.

Staff is our most valuable asset and represents 80% of our costs. Having a well qualified staff is the most important investment VLCT can make. We are fortunate to have a staff with growing tenure and expertise. Turnover continues to be very low, with only four positions having turned over during 2015. The outlook for us to continue providing a quality service program appears very strong.

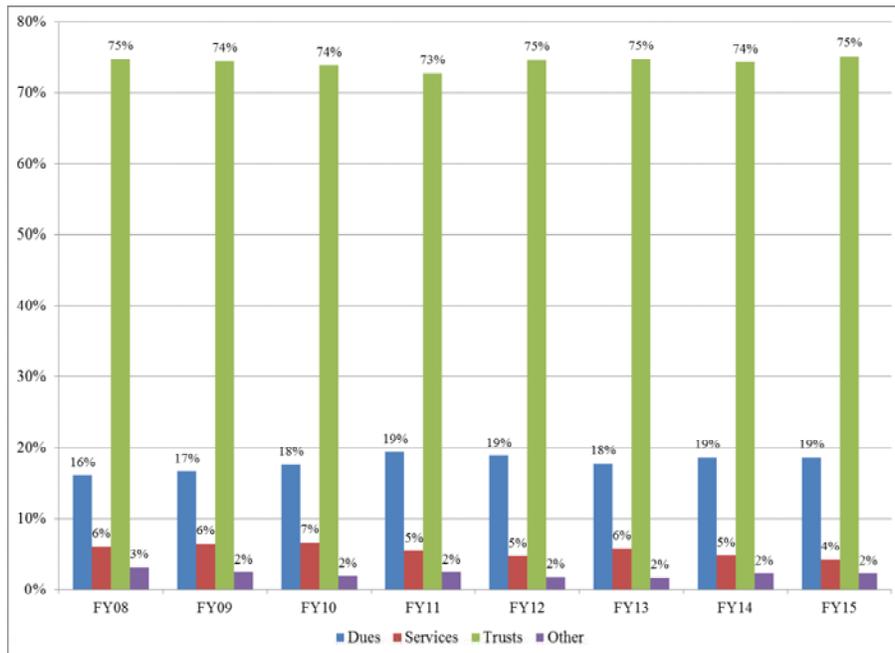
Membership in VLCT remains at 100% for the fifteenth year in a row. Participation in PACIF remains at record levels. In 2015, the merger of VLCT Health Trust, Inc. and VLCT Unemployment Insurance Trust, Inc. into the new VERB was completed and fully operational. VERB continues to assist members with access to employee health insurance markets for the larger employer groups and to provide access to other employee benefit programs including dental, life, disability and long-term care insurances. VERB was also involved in strategically planning for and launching the services of a Human Resources Services Business Plan and Needs assessment.

# Vermont League of Cities and Towns

## Management Discussion and Analysis (Continued)

### *Outlook and Economic Factors (Continued)*

The major revenue sources that fund all five of VLCT's cost centers include dues, charges for services, reimbursements from the trusts, grants from federal or state sources and other miscellaneous sources. The following chart shows the gradual shift over time of the four types of revenue.



VLCT continues to work to expand services available through consulting, particularly in the financial and human resource management area, and to expand assistance in dealing with water pollution challenges through grant programs with the state and federal governments. There is substantial opportunity to support members in meeting other municipal needs and there is ongoing discussion about how best to accomplish those goals.

VLCT's newly renovated office space is working well, with improved workspace and increased communication and interaction.

In the financial management arena, the second year of capital budgeting has allowed us to better project and modulate the costs necessary to keep our staff well equipped to best serve the members, without the fluctuations experienced in the past dealing with depreciation costs.

## Vermont League of Cities and Towns

### Management Discussion and Analysis (Continued)

#### *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,	
	2015	2014
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 752,931	\$ 514,665
Accounts receivable	54,303	35,163
Amounts due from trusts	79,364	332,698
Prepaid expenses	146,454	134,793
Total current assets	1,033,052	1,017,319
Non-Current Assets		
Capital assets (net of accumulated depreciation)	774,386	891,937
Total Assets	1,807,438	1,909,256
<b>Deferred Outflows of Resources</b>		
Deferred pension amounts	479,220	-
Total Deferred Outflows of Resources	479,220	-
<b>Liabilities</b>		
Current Liabilities		
Accounts payable	33,743	90,285
Amounts due to trusts	70,262	-
Capital lease obligations	118,520	102,241
Accrued payroll	124,862	104,968
Deferred revenue	495,008	475,337
Deferred revenue - trusts	65,683	123,491
Total current liabilities	908,078	896,322
Non-Current Liabilities		
Capital lease obligations	-	118,520
Accrued compensated absences	136,876	136,202
Deferred revenue - trusts	145,051	178,730
Net pension liability	838,683	-
Total non-current liabilities	1,120,610	433,452
Total Liabilities	2,028,688	1,329,774
<b>Net Position</b>		
Net investment in capital assets	445,132	368,955
Unrestricted	(187,162)	210,527
Total Net Position	\$ 257,970	\$ 579,482

*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,	
	2015	2014
<b>Operating Revenues</b>		
Dues - regular	\$ 886,612	\$ 862,447
Dues - associate	107,201	105,490
Dues - contributing	9,450	9,000
Town fair	74,750	55,104
Publications	3,864	5,956
Workshops	88,086	81,098
Professional services	50,643	99,644
Administrative services	106,483	97,893
Newsletter advertising	12,929	11,797
Trust contracts	3,911,024	3,719,493
PACIF loss prevention contract	55,000	48,934
VERB HR consulting contract	23,934	-
Equipment revenue from trusts	121,868	125,245
Other income	16,009	17,917
Total operating revenues	5,467,853	5,240,018
<b>Operating Expenses</b>		
Salaries	3,275,876	3,108,607
Employee benefits	1,136,177	975,227
Office space	342,153	306,441
Office equipment	152,882	114,430
Communications	61,867	66,657
Printing and supplies	57,197	61,198
Travel and training	30,922	28,214
Officers' costs	47,361	34,621
Contracted services	46,196	52,134
Dues and subscriptions	41,035	40,917
Town fair	43,045	44,626
Workshops	65,017	60,966
Administrative services	15,148	21,203
Depreciation	196,754	195,692
Net loss on sale of equipment	2,833	19,551
Other expenses	586	11,163
Total operating expenses	5,515,049	5,141,647
Operating (loss) income	(47,196)	98,371
<b>Non-Operating Revenues</b>		
Investment income	1,159	961
Change in Net Position	(46,037)	99,332
Net Position, Beginning of Year	579,482	480,150
Cumulative effect of change in accounting principle	(275,475)	-
Net Position, End of Year	\$ 257,970	\$ 579,482

*See accompanying notes to the financial statements.*

# Vermont League of Cities and Towns

## Statements of Cash Flows

	Years ended 2015	December 31, 2014
<b>Cash Flows from Operating Activities</b>		
Receipts from membership dues	\$ 1,022,934	\$ 986,505
Receipts from trusts	4,343,935	3,695,450
Other receipts	333,624	365,414
Payments for salaries and benefits	(4,307,497)	(4,045,362)
Payments to vendors	(971,612)	(863,461)
Net cash provided by operating activities	421,384	138,546
<b>Cash Flows from Financing Activities</b>		
Receipts from sales of capital assets	4,280	7,000
Purchase of capital assets	(86,316)	(302,479)
Principal payments on capital lease	(102,241)	(85,202)
Net cash used in financing activities	(184,277)	(380,681)
<b>Cash Flows from Investing Activities</b>		
Net receipts for interest	1,159	961
Net Change in Cash and Cash Equivalents	238,266	(241,174)
Cash and Cash Equivalents, Beginning of Year	514,665	755,839
Cash and Cash Equivalents, End of Year	\$ 752,931	\$ 514,665
<b>Reconciliation of Operating (Loss) Income to Net Cash Provided By Operating Activities</b>		
Operating (loss) income	\$ (47,196)	\$ 98,371
Add (deduct) items not affecting cash:		
Depreciation expense	196,754	195,692
Net loss on sale of equipment	2,833	19,551
Changes in statement of net position accounts:		
Accounts receivable	(19,140)	(3,995)
Amounts due from trusts	253,334	(216,561)
Prepaid expenses	(11,661)	(42,973)
Deferred outflows of resources - deferred pension amounts	(394,502)	-
Accounts payable	(56,542)	22,082
Amounts due to trusts	70,262	(18,971)
Accrued payroll	19,894	23,225
Deferred revenue	19,671	9,568
Deferred revenue - trusts	(91,487)	37,310
Accrued compensated absences	674	15,247
Net pension liability	750,478	-
Deferred inflows of resources - deferred pension amounts	(271,988)	-
Net cash provided by operating activities	\$ 421,384	\$ 138,546
<b>Non-Cash Transactions</b>		
Capital assets acquired under capital lease obligations	\$ -	\$ 305,963

*See accompanying notes to the financial statements.*

# Vermont League of Cities and Towns

## Notes to the Financial Statements

Years ended December 31, 2015 and 2014

### **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), organizations for which VLCT is financially accountable and 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 (Board) is elected by the members and consists of thirteen town officials for 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 (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 it is accounted for as a proprietary enterprise fund.

#### *Change in Accounting Principle*

On January 1, 2015, VLCT adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68). The adoption of this standard resulted in a reduction of net position as of January 1, 2015 of \$275,475. Note H of the financial statements includes additional details on accounting and reporting under GASB 68.

## Vermont League of Cities and Towns

### Notes to the Financial Statements (Continued)

#### **Note B - Summary of Significant Accounting Policies (Continued)**

##### *Subsequent Events*

VLCT has evaluated subsequent events for disclosure and recognition through August 2, 2016, the date on which these financial statements were available to be issued.

##### *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, 2015 and for the year then ended, 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 H. VLCT's financial statements do not include any significant estimates as of December 31, 2014 or for the year then ended.

##### *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:

	2015		2014	
	Book Balance	Bank Balance	Book Balance	Bank Balance
Insured/FDIC	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000
Unsecured and collateralized	502,781	508,880	264,515	278,809
Petty cash	150	-	150	-
Total	<u>\$ 752,931</u>	<u>\$ 758,880</u>	<u>\$ 514,665</u>	<u>\$ 528,809</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 2015 and 2014 may be substantially higher than at year end.

## 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, 2015 and 2014, and VLCT did not write off any amounts during 2015 and 2014.

##### *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.

##### *Capital Assets*

Capital asset acquisitions greater than \$5,000 (\$1,000 prior to January 1, 2012 and \$500 prior to July 1, 2008) are capitalized at cost (cost net of salvage value prior to January 1, 2013). 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 year ended December 31, 2015:

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

##### *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 Vacation*

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.

## 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 of net position as of December 31, 2015 and 2014.

The Board 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 and \$75,000 as of December 31, 2015 and 2014, respectively.

##### *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.

##### *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 in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of VLCT include fund member dues, 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, 2015 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Capital assets at cost:				
Leasehold improvements	\$ 41,836	\$ -	\$ -	\$ 41,836
Computer equipment	1,099,246	49,262	(24,276)	1,124,232
Other equipment	261,626	7,995	(24,950)	244,671
Furniture & fixtures	328,842	-	-	328,842
Vehicles	<u>150,823</u>	<u>29,060</u>	<u>(21,899)</u>	<u>157,984</u>
Total capital assets at cost	1,882,373	86,317	(71,125)	1,897,565
Less: accumulated depreciation	<u>(990,436)</u>	<u>(196,754)</u>	<u>64,011</u>	<u>(1,123,179)</u>
Total net capital assets	<u>\$ 891,937</u>	<u>\$ (110,437)</u>	<u>\$ (7,114)</u>	<u>\$ 774,386</u>

Capital asset activity for the year ended December 31, 2014 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Capital assets at cost:				
Leasehold improvements	\$ 29,628	\$ 41,836	\$ (29,628)	\$ 41,836
Computer equipment	1,001,043	170,236	(72,033)	1,099,246
Other equipment	211,455	67,926	(17,755)	261,626
Furniture & fixtures	74,092	328,842	(74,092)	328,842
Vehicles	<u>171,537</u>	<u>-</u>	<u>(20,714)</u>	<u>150,823</u>
Total capital assets at cost	1,487,755	608,840	(214,222)	1,882,373
Less: accumulated depreciation	<u>(982,017)</u>	<u>(195,692)</u>	<u>187,273</u>	<u>(990,436)</u>
Total net capital assets	<u>\$ 505,738</u>	<u>\$ 413,148</u>	<u>\$ (26,949)</u>	<u>\$ 891,937</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 \$18,466 and \$15,752 for the years ended December 31, 2015 and 2014, respectively, and are included in office space expense on the statements of revenues, expenses and changes in net position. As of December 31, 2015, future minimum lease payments are as follows:

	<u>Amount</u>
2016	\$ 254,150
2017	286,715
2018	319,279
2019	328,858
2020	338,723
2021 - 2025	1,852,278
2026	<u>404,453</u>
Total	<u>\$ 3,784,456</u>

##### *Capital Lease Obligations*

During 2014, VLCT leased furniture and fixtures under capital lease obligations with a value totaling \$305,963. Pursuant to the lease agreements, total monthly principal payments are \$8,520 with a \$2 buy-out option at the end of the lease term. Accumulated depreciation and depreciation expense on assets purchased under capital lease agreements were \$56,093 and \$30,596, respectively, as of and for the year ended December 31, 2015. Accumulated depreciation and depreciation expense on assets purchased under capital lease agreements was \$25,497 as of and for the year ended December 31, 2014. As of December 31, 2015, future minimum lease payments are \$118,520 and are due in 2016.

## Vermont League of Cities and Towns

### Notes to the Financial Statements (Continued)

#### **Note E - Affiliated Organizations and Related Party Transactions**

Per contractual agreement, 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). Prior to January 1, 2015, VERB was operating as two separate trusts: VLCT Unemployment Trust, Inc. (UI) and VLCT Health Trust, Inc. (HT). Effective January 1, 2015, UI merged into HT, with HT being the surviving entity. HT then renamed itself VERB. These entities are affiliated nonprofit corporations and are collectively referred to as "the trusts" throughout this document.

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

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 reimbursed to or collected from the trusts on a quarterly basis.

The final allocation to the trusts by expense category for the year ended December 31, 2015 is as follows:

	<u>VERB</u>	<u>PACIF</u>	<u>Total</u>
Salaries - allocated directly	\$ 196,883	\$ 1,465,367	\$ 1,662,250
Salaries - administration	75,717	720,408	796,125
Employee benefits	87,753	734,745	822,498
Office space	25,194	226,744	251,938
Office equipment	13,289	136,760	150,049
Communications	6,855	49,256	56,111
Printing and supplies	5,030	42,036	47,066
Travel and training	2,548	20,923	23,471
Officers' costs	2,349	25,787	28,136
Contracted services	2,872	27,547	30,419
Dues and subscriptions	2,007	18,714	20,721
Miscellaneous	4,879	58,761	63,640
Consulting revenue	(41,400)	-	(41,400)
Total trust contracts revenue	<u>\$ 383,976</u>	<u>\$ 3,527,048</u>	<u>\$ 3,911,024</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, 2014 is as follows:

	<u>UI</u>	<u>HT</u>	<u>PACIF</u>	<u>Total</u>
Salaries - allocated directly	\$ 59,755	\$ 122,822	\$ 1,438,131	\$ 1,620,708
Salaries - administration	17,976	52,793	689,951	760,720
Employee benefits	23,145	55,962	666,341	745,448
Office space	6,990	13,980	192,842	213,812
Office equipment	2,697	7,956	110,895	121,548
Communications	1,687	5,084	48,642	55,413
Printing and supplies	1,105	3,308	36,467	40,880
Travel and training	620	1,846	20,390	22,856
Officers' costs	539	1,534	24,161	26,234
Contracted services	1,208	3,537	44,806	49,551
Dues and subscriptions	451	1,330	16,592	18,373
Miscellaneous	2,587	5,212	71,401	79,200
Consulting revenue	<u>-</u>	<u>(35,250)</u>	<u>-</u>	<u>(35,250)</u>
Total trust contracts revenue	<u>\$ 118,760</u>	<u>\$ 240,114</u>	<u>\$ 3,360,619</u>	<u>\$ 3,719,493</u>

VLCT's net receivable from the trusts consists of the following as of December 31, 2015:

	<u>VERB</u>	<u>PACIF</u>	<u>Total</u>
Amounts due from trusts	\$ 23,934	\$ 55,430	\$ 79,364
Amounts due to trusts	<u>-</u>	<u>(70,262)</u>	<u>(70,262)</u>
Net amounts due from (to) trusts	<u>\$ 23,934</u>	<u>\$ (14,832)</u>	<u>\$ 9,102</u>

VLCT's net receivable from the trusts consists of the following as of December 31, 2014:

	<u>UI</u>	<u>HT</u>	<u>PACIF</u>	<u>Total</u>
Amounts due from trusts	<u>\$ 3,781</u>	<u>\$ 10,133</u>	<u>\$ 318,784</u>	<u>\$ 332,698</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 and \$48,934 in 2015 and 2014, respectively.

## Vermont League of Cities and Towns

### Notes to the Financial Statements (Continued)

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

Effective July 1, 2015, MAC entered into an agreement with VERB and PACIF whereby 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 10% of the costs associated with this program. In 2015, VLCT recognized consulting revenue of \$23,934 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 2015 amounted to \$26,593 and are included in salaries and employee benefits expenses on the statements of revenues, expenses and changes in net position.

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

#### Note F - Deferred Revenue

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

	<u>2015</u>	<u>2014</u>
Deferred membership dues	\$ 489,424	\$ 471,568
Deferred revenue - trusts	210,734	302,221
Other deferred revenue	<u>5,584</u>	<u>3,769</u>
Total deferred revenue	<u>\$ 705,742</u>	<u>\$ 777,558</u>

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

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.

Vermont League of Cities and Towns

Notes to the Financial Statements (Continued)

**Note F - Deferred Revenue (Continued)**

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

	<u>2015</u>	<u>2014</u>
Deferred revenue - trusts, beginning of year	\$ 302,221	\$ 264,911
Add: reimbursement for new assets	30,381	162,555
Less: current depreciation	<u>(121,868)</u>	<u>(125,245)</u>
Deferred revenue - trusts, end of year	<u>\$ 210,734</u>	<u>\$ 302,221</u>

**Note G - Net Position**

The net investment in capital assets is as follows for the years ended December 31:

	<u>2015</u>	<u>2014</u>
Capital assets at cost	\$ 1,897,565	\$ 1,882,373
Less: accumulated depreciation	(1,123,179)	(990,436)
Capital lease obligations	(118,520)	(220,761)
Deferred revenue - trusts	<u>(210,734)</u>	<u>(302,221)</u>
Net investment in capital assets	<u>\$ 445,132</u>	<u>\$ 368,955</u>

There are no restricted uses of net positions as of December 31, 2015 and 2014.

**Note H - 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 and a 5.125% contribution by the employer. 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, 2015, covered payroll was \$248,487 and VLCT's contribution was \$12,735. For the year ended December 31, 2014, covered payroll was \$211,731 and VLCT's contribution was \$10,843. For the year ended December 31, 2013, covered payroll was \$544,374 and VLCT's contribution was \$27,899.

## Vermont League of Cities and Towns

### Notes to the Financial Statements (Continued)

#### **Note H - Benefit Plans (Continued)**

##### 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 may join at that time or at any time thereafter. 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 year ended June 30, 2015, the retirement system consisted of 436 participating employers.

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 three nominees. The list of three nominees is jointly submitted by the Vermont League of Cities and Towns and the Vermont School Boards Association. The Executive Director of VLCT served as the Chairman of the Board of Trustees until June 11, 2015.

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 H - Benefit Plans (Continued)**

*Adoption of GASB 68*

In June 2012, the GASB issued GASB 68, which revises and establishes new financial reporting requirements for most governmental organizations that provide their employees with pension benefits. GASB 68 requires governments providing defined pension benefits to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. GASB 68 also enhances accountability and transparency through revised and new note disclosures.

VLCT adopted GASB 68 on January 1, 2015, resulting in a cumulative effect of change in accounting principle adjustment that reduced net position as of January 1, 2015 by \$275,475. The cumulative effect adjustment comprises of VLCT's proportionate share of the net pension liability based upon the June 30, 2014 actuarial valuation report of \$88,202 adjusted for deferred outflows and deferred inflows of resources totaling \$84,715 and \$271,988, respectively.

*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
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

## Vermont League of Cities and Towns

### Notes to the Financial Statements (Continued)

#### Note H - Benefit Plans (Continued)

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.

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, 2014.

#### *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, 2015, Plan DB requires a 4.875% contribution by the employee and a 5.500% contribution by the employer for Group B. For the plan year ended June 30, 2014, Plan DB requires a 4.750% contribution by the employee and a 5.375% contribution by the employer for Group B.

## Vermont League of Cities and Towns

### Notes to the Financial Statements (Continued)

#### **Note H - Benefit Plans (Continued)**

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 July 1, 2014 through June 30, 2015. 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 is as follows as of and for the year ended December 31, 2015:

	2015
Contractually required contributions	\$ 158,425
Contributions in relation to the contractually required contributions	158,425
Contribution deficiency (excess)	\$ -
VLCT's covered payroll	\$ 2,912,744
Contributions as a percentage of covered payroll	5.44 %

#### *Net Pension Liability*

As of and for the year ended December 31, 2015, VLCT reported a liability of \$838,683 and a pension expense of \$242,413 for its proportionate share of the VMERS Plan DB net pension liability. The net pension liability was measured as of June 30, 2015, 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 was 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, 2015, VLCT's proportion was 1.08785%, which was an increase of 0.1214 from its proportion measured as of June 30, 2014.

## Vermont League of Cities and Towns

### Notes to the Financial Statements (Continued)

#### Note H - 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 year ended June 30, 2015:

	<u>2015</u>
VLCT's proportion of the collective net pension liability	1.08785 %
VLCT's proportionate share of the collective net pension liability	\$ 838,683
VLCT's proportionate share of the collective net pension expense	\$ 242,413
VLCT's covered payroll	\$ 2,764,800
VLCT's proportionate share of the net pension liability as a percentage of its covered-employee payroll	30.33 %
Plan DB's fiduciary net position as a percentage of the total pension liability	87.42 %

Vermont League of Cities and Towns

Notes to the Financial Statements (Continued)

**Note H - Benefit Plans (Continued)**

*Deferred Outflows and Inflows of Resources*

As of and for the year ended December 31, 2015, VLCT reported its proportionate share of Plan DB's deferred outflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>
Difference between expected and actual economic experience	\$ 26,511
Changes in assumptions and other inputs	167,024
Net difference between projected and actual earnings on plan investments	162,028
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>41,612</u>
Total allocated deferred pension amounts	397,175
Contributions paid to Plan DB subsequent to the measurement date	<u>82,045</u>
Total deferred pension amounts	<u><u>\$ 479,220</u></u>

There were no deferred inflows of resources related to pensions as of and for the year ended December 31, 2015.

The net amounts of VLCT's balances of deferred outflows of resources as of December 31, 2015 related to pensions will be recognized as pension expense as follows during the years ended December 31:

	<u>Pension Expense Amount</u>
2016	\$ 162,656
2017	80,611
2018	158,282
2019	<u>77,671</u>
Total	<u><u>\$ 479,220</u></u>

## Vermont League of Cities and Towns

### Notes to the Financial Statements (Continued)

#### Note H - Benefit Plans (Continued)

##### *Actuarial Methods and Assumptions*

The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of June 30, 2014 with update procedures used to roll forward the total pension liability to June 30, 2015. The assumptions used in the actuarial valuation were selected on the basis of the experience study that was performed for the five-year period ending June 30, 2010. The significant assumptions and methods used in the actuarial valuation are as follows:

Investment rate of return:	7.95%
Salary increases:	5% per year
Deaths:	
Active participants	50% of the probabilities in the 1995 Buck Mortality Tables for Males and Females
Non-disabled retirees and terminated vested participants	The 1995 Buck Mortality Tables for Males and Females with no set-back for males and a one year set-back for females
Disabled retirees	RAP-2000 Disabled Life Tables
Beneficiaries	1995 Buck Mortality Tables for Males and Females
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:	Projected benefit cost method; the unfunded accrued liability is amortized in installments increasing by 5% per year
Cost-of-living adjustments to benefits of terminated vested and retired participants:	Assumed to occur at the rate of 1.8% 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 3.00% to 3.25% per year

## Vermont League of Cities and Towns

### Notes to the Financial Statements (Continued)

#### **Note H - Benefit Plans (Continued)**

The discount rate used to measure the total pension liability as of June 30, 2015, described in detail below, was lowered from 8.23% to 7.95% due to the adoption by the Board of Trustees of a 7.95% expected future rate of return on assets for funding purposes. There were no other changes to assumptions or other inputs that affected measurement of the total pension liability since the prior measurement date of June 30, 2014.

#### *Long-Term Expected Rate of Return*

The long-term expected rate of return on plan investments was determined using best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) developed for each major asset class using an econometric model that forecasts a variety of economic environments and then calculates asset class returns based on functional relationships between the economic variable and the asset classes. These best estimate ranges were combined to produce forecasts of the short, intermediate and longer term horizons by weighting the expected future nominal rates of return by the target asset allocation percentage. The various time horizons in the forecast are intended to capture more recent economic and capital market conditions as well as other plausible environments that could develop in the future over economic cycles.

Best estimates of arithmetic rates of return for each major asset class included in the target asset allocation as of June 30, 2015 are summarized as follows:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Equity	31.50 %	8.61 %
Fixed income	33.00 %	1.91 %
Alternatives	15.50 %	6.93 %
Multi-strategy	20.00 %	4.88 %
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 3.0%.

Vermont League of Cities and Towns

Notes to the Financial Statements (Continued)

**Note H - Benefit Plans (Continued)**

*Discount Rate*

The discount rate used to measure the total pension liability as of June 30, 2015 was 7.95%, which was a decrease of 0.28 from the discount rate used in the June 30, 2014 valuation of the total pension liability. The projection of cash flows used to determine the discount rate assumed that contributions will continue to be made in accordance with the current funding policy. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments to current VMERS members. Therefore, the long-term expected rate of return on 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 7.95%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.95%) or one percentage point higher (8.95%) than the current rate as of June 30, 2015:

	<u>1% Rate Decrease (6.95%)</u>	<u>Current Discount Rate (7.95%)</u>	<u>1% Rate Increase (8.95%)</u>
VLCT's proportionate share of the net pension liability	<u>\$ 1,675,214</u>	<u>\$ 838,683</u>	<u>\$ 137,431</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/retirement/municipal-vmers>

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](http://finance.vermont.gov/reports_and_publications/cafr)

## Vermont League of Cities and Towns

### Notes to the Financial Statements (Continued)

#### **Note H - Benefit Plans (Continued)**

##### **ICMA Plans:**

VLCT has a defined contribution plan through the ICMA Retirement Corporation in accordance with Internal Revenue Code Section 401(a). Employees who participate in this plan do not participate in the Social Security program. The ICMA plan requires a 4.5% contribution by the employee and a 7.1% contribution by VLCT. For the year ended December 31, 2015, covered payroll under this plan was \$3,137,097 and VLCT's contribution was \$222,806. For the year ended December 31, 2014, covered payroll under this plan was \$2,924,924 and VLCT's contribution was \$207,669. For the year ended December 31, 2013, covered payroll under this plan was \$2,822,961 and VLCT's contribution was \$200,430.

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.

Vermont League of Cities and Towns

Statement of Revenues and Expenses - Budgetary Basis

Year ended December 31, 2015  
(Unaudited)

	<u>Budget</u>	<u>Actual</u>	Variance - <u>Positive/(Negative)</u>
<b>Revenues</b>			
Dues			
Regular members	\$ 886,611	\$ 886,612	\$ 1
Associate members	101,537	107,201	5,664
Contributing members	<u>9,200</u>	<u>9,450</u>	<u>250</u>
Total dues	997,348	1,003,263	5,915
Services			
Town fair	70,000	74,750	4,750
Publications	5,000	3,864	(1,136)
Workshops	89,563	88,086	(1,477)
Professional services	93,750	50,643	(43,107)
Newsletter advertising	<u>15,000</u>	<u>12,929</u>	<u>(2,071)</u>
Total services	273,313	230,272	(43,041)
Administrative services			
Administrative contracts	8,000	8,749	749
Grant administration	<u>72,500</u>	<u>97,734</u>	<u>25,234</u>
Total administrative services	80,500	106,483	25,983
Trust reimbursements			
Trust contracts	3,981,287	3,911,024	(70,263)
PACIF loss prevention contract	55,000	55,000	-
VERB HR consulting contract	-	23,934	23,934
Equipment revenue from trusts	<u>133,131</u>	<u>121,868</u>	<u>(11,263)</u>
Total trust reimbursements	4,169,418	4,111,826	(57,592)
Miscellaneous	7,800	16,009	8,209
Investment income	<u>650</u>	<u>1,159</u>	<u>509</u>
<b>Total Revenues</b>	5,529,029	5,469,012	(60,017)

\*\* 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

Year ended December 31, 2015  
(Unaudited)

	<u>Budget</u>	<u>Actual</u>	Variance - <u>Positive/(Negative)</u>
<b>Expenses</b>			
Salaries			
Salaries	\$ 3,252,118	\$ 3,229,472	\$ 22,646
Payroll taxes	47,156	46,404	752
Total salaries	<u>3,299,274</u>	<u>3,275,876</u>	<u>23,398</u>
Employee benefits			
VMERS Plan DB	161,543	242,413	(80,870)
VMERS Plan DC	11,137	12,735	(1,598)
401(a) employer contributions	224,441	222,806	1,635
Health insurance	602,333	585,360	16,973
Long-term care insurance	8,453	8,258	195
Dental insurance	20,408	19,249	1,159
Life and disability insurance	36,588	35,323	1,265
Unemployment insurance	8,647	8,114	533
Flex plan administration	1,821	1,919	(98)
Total employee benefits	<u>1,075,371</u>	<u>1,136,177</u>	<u>(60,806)</u>
Office expenses			
Lease payments	221,586	221,586	-
Electricity	18,000	23,617	(5,617)
Building maintenance	22,000	17,852	4,148
Insurance - office	58,400	58,586	(186)
Property taxes	15,000	16,786	(1,786)
Parking	-	3,726	(3,726)
Total office expenses	<u>334,986</u>	<u>342,153</u>	<u>(7,167)</u>
Equipment expenses			
Equipment maintenance	33,200	13,461	19,739
Equipment purchases - non-capital	66,025	47,190	18,835
Copier maintenance	20,400	21,277	(877)
Software maintenance	61,900	68,137	(6,237)
Software purchases	5,000	2,817	2,183
Total equipment expenses	<u>186,525</u>	<u>152,882</u>	<u>33,643</u>
Communications			
Postage	55,000	37,246	17,754
Postage meter rental	900	916	(16)
Telephone	24,900	23,705	1,195
Total communications	<u>80,800</u>	<u>61,867</u>	<u>18,933</u>

(continued)

Vermont League of Cities and Towns

Statement of Revenues and Expenses - Budgetary Basis

Year ended December 31, 2015  
(Unaudited)

	<u>Budget</u>	<u>Actual</u>	Variance - <u>Positive/(Negative)</u>
Printing and supplies			
Job printing	\$ 32,500	\$ 26,937	\$ 5,563
Paper purchases	8,000	8,955	(955)
Supplies	<u>24,700</u>	<u>21,305</u>	<u>3,395</u>
Total printing and supplies	65,200	57,197	8,003
Travel and training			
Vehicle expense	1,000	840	160
Member outreach	14,119	10,209	3,910
Staff travel/training	<u>28,500</u>	<u>19,873</u>	<u>8,627</u>
Total travel and training	43,619	30,922	12,697
Officers' expenses			
Board meetings	30,200	47,361	(17,161)
President's stipend	<u>1,800</u>	<u>-</u>	<u>1,800</u>
Total officers' expenses	32,000	47,361	(15,361)
Contracted services			
Auditing and accounting	19,800	20,549	(749)
Bank services	3,800	3,961	(161)
Legal services	7,500	4,818	2,682
Consultants	7,500	5,359	2,141
Advertising and recruiting	<u>6,000</u>	<u>11,509</u>	<u>(5,509)</u>
Total contracted services	44,600	46,196	(1,596)
Dues and subscriptions			
National League of Cities	17,250	16,729	521
Professional associations	<u>23,520</u>	<u>24,306</u>	<u>(786)</u>
Total dues and subscriptions	40,770	41,035	(265)
Services			
Town fair	50,000	43,045	6,955
Workshops	62,683	65,017	(2,334)
Consulting	<u>10,000</u>	<u>15,148</u>	<u>(5,148)</u>
Total services	122,683	123,210	(527)

(continued)

Vermont League of Cities and Towns

Statement of Revenues and Expenses - Budgetary Basis

Year ended December 31, 2015  
(Unaudited)

	<u>Budget</u>	<u>Actual</u>	Variance - <u>Positive/(Negative)</u>
Miscellaneous			
Miscellaneous	\$ 1,800	\$ 586	\$ 1,214
Net loss on sale of equipment	-	2,833	(2,833)
Depreciation expense	<u>220,471</u>	<u>196,754</u>	<u>23,717</u>
Total miscellaneous	<u>222,271</u>	<u>200,173</u>	<u>22,098</u>
<b>Total Expenses</b>	<u>5,548,099</u>	<u>5,515,049</u>	<u>33,050</u>
<b>Total</b>	<u>\$ (19,070)</u>	<u>\$ (46,037)</u>	<u>\$ (26,967)</u>

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