

Vermont Education Health Initiative, Inc.

Audited Financial Statements with Required Supplementary Information and Other Information

*Years ended June 30, 2023 and 2022
with Report of Independent Auditors*

Vermont Education Health Initiative, Inc.

Audited Financial Statements with Required Supplementary Information
and Other Information

Years ended June 30, 2023 and 2022

Contents

Report of Independent Auditors.....1 - 3
Management's Discussion and Analysis (Unaudited).....4 - 8

Audited Financial Statements

Statements of Net Position.....9
Statements of Revenues, Expenses, and Changes in Net Position.....10
Statements of Cash Flows.....11
Notes to the Financial Statements.....12 - 20

Required Supplementary Schedules

Claims Development Information (Unaudited).....21 - 22
Reconciliation of Claim Liabilities by Type of Contract (Unaudited).....23

Other Information

Combining Statement of Net Position (Unaudited).....24
Combining Statement of Revenues, Expenses, and Changes in Net Position (Unaudited).....25

Report of Independent Auditors

Board of Directors
Vermont Education Health Initiative, Inc.

Opinion

We have audited the financial statements of Vermont Education Health Initiative, Inc. (the Company), which comprise the statement of net position as of June 30, 2023, and the related statements of revenues, expenses and changes in net position, and cash flows for the year 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 the Company as of June 30, 2023, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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 the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

The financial statements of the Company for the year ended June 30, 2022 were audited by another auditor who expressed an unmodified opinion on those statements on September 28, 2022.

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 the Company'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 the Company'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 the Company'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 the Management's Discussion and Analysis on pages 4 - 8 and accompanying supplementary schedules listed on pages 21 - 23 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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 audit was conducted for the purpose of forming an opinion on the Company's financial statements as a whole. The combining statements of net position and combining statement of revenues, expenses and changes in net position on pages 24 - 25 are presented for purposes of additional analysis and are not required parts of the financial statements. Such information is the responsibility of management and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

A handwritten signature in cursive script that reads "Johnson Lambert LLP". The signature is written in black ink and is positioned above the contact information.

Williston, Vermont

September 26, 2023

Vermont firm registration: 092-0000267

Vermont Education Health Initiative, Inc.

Management's Discussion and Analysis (Unaudited)

June 30, 2023 and 2022

Management's Discussion and Analysis

The Vermont Education Health Initiative, Inc. (VEHI or the Company) is a self-funded Intermunicipal Insurance Association, operating under the authority of the Vermont Department of Financial Regulation since 2013. VEHI's mission is to offer high-quality employee benefit options and related services in a cost effective manner on behalf of its member municipalities and Vermont State Teacher Retirement System (VSTRS). As a member organization, VEHI provides a range of benefit plans for Vermont school district employees and VSTRS retirees. VEHI plays an active role in all areas of health care as well as related medical and dental benefit plan designs, financing, marketing, risk management, wellness, consumer education and customer service.

VEHI was incorporated on July 1, 1996 under the Nonprofit Corporation Act and as such all revenue is exempt from Federal and State income taxes under Internal Revenue Code Section 115.

As of October 1, 2018, VEHI is governed by the Vermont School Boards Association (VSBA) and the Vermont National Education Association (VT-NEA). VEHI has no staff but has a service agreement with both the Vermont School Boards Insurance Trust (VSBIT) and the VT-NEA to manage the organization.

Fiscal 2023 Highlights and Overall Financial Position

During the year ending June 30, 2023, VEHI partnered with Blue Cross Blue Shield of Vermont and Northeast Delta Dental to provide health insurance to 144 and dental insurance coverage to 106 school districts and related organizations.

VEHI's program contributions totaled \$293,509,789 in 2023 and gained \$2,655,710 in net investment activity. VEHI holds \$3,052,627 in contribution receivable and \$9,820,633 in claims liabilities as of June 30, 2023.

VEHI's overall net position decreased by \$5.1 million in 2023: from \$56.4 to \$51.3 million. The Health Program's net position decreased by \$4.8 million. The Dental Program's net position decreased by \$0.3 million.

The Financial Statements

VEHI's financial statements are a series of reports that detail financial information using enterprise fund accounting and financial reporting. They are prepared in accordance with GASB 34 and GASB 37. VEHI uses the accrual basis method of accounting in preparing its financial statements.

Vermont Education Health Initiative, Inc.

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

The Financial Statements (Continued)

The statement of revenues, expenses, and changes in net position presents the results of VEHI's operations. The statement reports all revenues and expenses and reconciles the beginning and end of year net position balances.

The statement of net position includes all VEHI's assets and liabilities. The statement also presents the balance of assets in excess of liabilities, or net position.

The statement of cash flows supplements these statements providing relevant information about cash receipts and payments to VEHI.

Statement of Revenues, Expenses, and Changes in Net Position

The following table summarizes the statements of revenues, expenses, and changes in net position for 2023, with a comparison to 2022.

	<u>2023</u>	<u>2022</u>
Operating revenues:	\$ 293,629,713	\$ 303,296,958
Operating expenses:		
Net change in health/dental claims paid and reserved	272,392,641	260,410,065
Capitation - health	1,217,966	1,644,590
Reinsurance and administration - health/dental	18,537,239	18,971,089
Assessments	4,974,138	4,651,875
Other expenses	<u>4,235,203</u>	<u>3,887,650</u>
Total operating expenses	<u>301,357,187</u>	<u>289,565,269</u>
Net operating (loss) income	(7,727,474)	13,731,689
Non-operating revenues (expenses):		
Total investment activity	<u>2,655,710</u>	<u>(2,151,364)</u>
Change in net position	(5,071,764)	11,580,325
Net position at beginning of year	<u>56,417,566</u>	<u>44,837,241</u>
Net position at end of year	<u>\$ 51,345,802</u>	<u>\$ 56,417,566</u>

Vermont Education Health Initiative, Inc.

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

The Financial Statements (Continued)

Revenues

VEHI's fiscal 2023 operations resulted in a decrease in net position of \$5.1 million following the 2022 increase of \$11.6 million. VEHI raised the health rates between 2.8%-5.2% for 2023 depending on the plan chosen. The majority of the subscribers elect the Gold CDHP plan. The rate increase for this plan was 5.2%. Despite this increase, overall contribution revenue only increased 3.3% due to a change in membership effective January 1, 2022, which is discussed later under economic factors. Dental rates for 2023 were increased from 0% - 4% as each member is experience rated. All revenues are considered operating revenues except for investment income. VEHI earned \$293.5 million in operating revenues versus \$301.4 million in total expenses in 2023. All 2023 operating revenues come primarily from program contributions which decreased \$10.2 million for health in 2023. Dental contributions increased \$0.4 million.

Investments are held at the Wilmington Trust and with the Vanguard Group in the form of money market accounts, and mutual funds. VEHI earned \$1.6 million in interest and dividends in 2023, up from \$448 thousand in 2022. VEHI recorded positive market change of \$1,065,851 in 2023, following a negative market change of \$2,564,229 in 2022. The decline in 2022 is consistent with overall market conditions nationwide.

Expenses

VEHI's largest expense is the actual claims paid by Blue Cross Blue Shield of Vermont and Northeast Delta Dental. These are reimbursed directly by VEHI and totaled \$272.4 million in 2023, \$12.0 million more than the 2022 claims expense. Capitation expense decreased by \$426,624.

Reinsurance and administrative expenses paid to Blue Cross Blue Shield of Vermont and Northeast Delta Dental make up \$18,537,239 of total expenses in 2023, a decrease of \$433,850 from 2022.

In 2013, both the State and Federal governments began assessing health and dental plans in order to pay for initiatives in health care reform. For 2023 assessments total \$4.97 million; \$4.8 million for the State of Vermont, \$108 thousand for Federal PCOR, and \$23 thousand for out of state assessments. This compares to \$4.65 million for 2022; \$4.6 million for State of Vermont, \$110 thousand for Federal PCOR, and \$25 thousand for out of state assessments.

Vermont Education Health Initiative, Inc.

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

The Financial Statements (Continued)

VEHI incurred other expenses in the amount of \$4.2 million, an increase of \$347,553 from 2022. VEHI offers the PATH (Planned Action Toward Health) Program to all members. This expense, in the amount of \$2.20 million, makes up the majority of other expenses. PATH expenses increased \$148,788 from 2022. VEHI's primary objective is to control related claims costs while helping members to obtain health and dental care in the most effective manner. PATH, VEHI's wellness program, facilitates this objective. Participation in PATH programs decreased from 10,952 participants in 2022 to 10,314 in 2023. Other expenses also include administrative services provided to VEHI by VSBIT and the VT-NEA. For the year ending June 30, 2023, VEHI incurred expenses of \$1.4 million in accordance with administrative services contracts with these entities. VEHI also contracts with Remedy Analytics for to bring additional expertise and analytical tools to the pharmacy arena. For 2023 the Remedy fee increased slightly, from \$375 thousand to \$385 thousand. The remaining \$107 thousand of other expenses was paid directly to vendors by VEHI.

Statement of Net Position

The following table summarizes the statement of net position for 2023, with a comparison to 2022.

	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Assets		
Cash, cash equivalents and investments	\$ 54,864,635	\$ 59,077,895
Other assets	<u>8,493,282</u>	<u>7,128,384</u>
Total assets	<u>\$ 63,357,917</u>	<u>\$ 66,206,279</u>
Liabilities		
Deferred revenue	\$ 732,783	\$ 1,172,658
Other payables	<u>11,279,332</u>	<u>8,616,055</u>
Total liabilities	12,012,115	9,788,713
Net position - unrestricted	<u>51,345,802</u>	<u>56,417,566</u>
Total liabilities and net position	<u>\$ 63,357,917</u>	<u>\$ 66,206,279</u>

Assets

Cash, cash equivalents and investments are held at the M&T Bank, Wilmington Trust and at the Vanguard Group in the form of money market accounts, a total stock market index fund and a short term bond index fund.

Vermont Education Health Initiative, Inc.

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

The Financial Statements (Continued)

Other assets totaling \$8.5 million consists mainly of a working fund deposit in the amount of \$4.7 million maintained by Blue Cross Blue Shield of Vermont. This account is a non-interest bearing cash account used to pay claims and is estimated to be one week's claims payable. VEHI also held \$3.0 million in contributions receivable as of June 30, 2023; up from \$1.2 million as of June 30, 2022.

Liabilities

VEHI collected \$732,783 in contribution for fiscal year 2023 prior to June 30, 2023 due to payment timing by our member schools.

Other payables of \$11.3 million consist primarily of claims payable to Blue Cross Blue Shield of Vermont and Northeast Delta Dental in the amount of \$9.8 million. Claims payable as of June 30, 2022 totaled \$7.1 million.

Remaining payables include, \$757 thousand due for state and federal assessments, \$65,597 in accrued administration fees to process the claims payable, \$651 thousand due to other vendors.

Economic Factors

For fiscal year 2023, the Department of Financial Regulation approved rate increases ranging from 2.8% to 5.2% for the four plan offerings for active employees. This was an overall increase of 5.0% for active school employees.

For fiscal year 2024, the Department of Financial Regulation approved rate increases ranging from 12.0% to 12.7% for the four plan offerings for active employees. This was an overall increase of 12.6% for active school employees.

Effective January 1, 2022, approximately 6,700 members moved out of VEHI as the Vermont State Teachers' Retirement System chose to move all Medicare eligible members to a Medicare Advantage Plan with Vermont Blue Advantage. VEHI continues to provide them with administrative support and the PATH wellness benefit for a monthly per member charge. As a result of this change contribution revenue, along with associated claims and capitation expenses, for FY22 include six months where the 6,700 members remained. This is affecting the comparison between FY22 and FY23.

For fiscal year 2023, dental rates were raised from 0%-4% based on the members incurred claims. For fiscal year 2024, 0%-4% as well.

Requests for Information

This financial report is designed to provide a general overview of VEHI's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Vermont Education Health Initiative, Inc., 52 Pike Drive, Berlin, VT 05602.

Vermont Education Health Initiative, Inc.

Statements of Net Position

As of June 30, 2023 and 2022

Assets	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 13,686,933	\$ 19,704,741
Mutual funds, at fair value	41,177,702	39,373,154
Accrued interest receivable	92,164	19,825
Contributions receivable	3,052,627	1,245,604
Working fund deposit	4,730,000	5,370,000
Other receivables	303,217	371,081
Prepaid expenses	<u>315,274</u>	<u>121,874</u>
Total Assets	<u>\$ 63,357,917</u>	<u>\$ 66,206,279</u>
Liabilities and Net Position		
Liabilities		
Accounts payable	\$ 702,164	\$ 947,185
Assessments payable	756,535	541,202
Advance premiums	732,783	1,172,658
Claims payable	6,329,039	5,052,909
Claims to be paid	3,476,941	2,061,504
Reserve for unallocated loss adjustment expenses	<u>14,653</u>	<u>13,255</u>
Total liabilities	12,012,115	9,788,713
Net Position		
Unrestricted net position	<u>51,345,802</u>	<u>56,417,566</u>
Total net position	<u>51,345,802</u>	<u>56,417,566</u>
Total Liabilities and Net Position	<u>\$ 63,357,917</u>	<u>\$ 66,206,279</u>

See accompanying notes to the financial statements.

Vermont Education Health Initiative, Inc.

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating Revenues		
Health contributions	\$ 285,432,254	\$ 295,598,481
Dental contributions	8,077,535	7,694,477
Grant revenue	119,924	-
Administrative performance revenue	<u>-</u>	<u>4,000</u>
Total operating revenues	293,629,713	303,296,958
Operating Expenses		
Net change in health claims paid and reserved	264,876,482	253,316,394
Net change in dental claims paid and reserved	7,516,159	7,093,671
Reinsurance - Health	3,827,657	3,656,942
Capitation - Health	1,217,966	1,644,590
Assessments	4,974,138	4,651,875
Program administration - health	14,131,887	14,746,068
Program administration - dental	577,695	568,079
General and administrative expenses	1,907,387	1,828,544
Wellness grants and expenses	<u>2,327,816</u>	<u>2,059,106</u>
Total operating expenses	<u>301,357,187</u>	<u>289,565,269</u>
Net operating (loss) income	(7,727,474)	13,731,689
Non-Operating Revenues (Expenses)		
Investment income (loss)	2,682,628	(2,115,938)
Investment fees	<u>(26,918)</u>	<u>(35,426)</u>
Net non-operating revenues (expenses)	<u>2,655,710</u>	<u>(2,151,364)</u>
Change in net position	(5,071,764)	11,580,325
Net position, beginning of year	<u>56,417,566</u>	<u>44,837,241</u>
Net position, end of year	<u>\$ 51,345,802</u>	<u>\$ 56,417,566</u>

See accompanying notes to the financial statements.

Vermont Education Health Initiative, Inc.

Statements of Cash Flows

Years ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash Flows from Operating Activities		
Cash received from health and dental contributions	\$ 291,262,891	\$ 303,044,686
Cash received from administrative performance revenue	-	4,000
Cash paid for health and dental claims	(269,699,676)	(268,855,539)
Cash paid for reinsurance, capitation and administration	(19,755,205)	(20,617,497)
Cash paid for assessments	(4,758,805)	(4,921,321)
Cash paid for general and administrative expenses	(2,277,944)	(1,507,838)
Cash paid for wellness grants and expenses	<u>(2,207,892)</u>	<u>(2,059,106)</u>
Net cash flows from operating activities	(7,436,631)	5,087,385
Cash Flows from Investing Activities		
Net change in investments	-	(2,005,329)
Change in working fund deposit	640,000	(438,897)
Cash received from interest and dividends	805,741	429,180
Cash paid for investment fees	<u>(26,918)</u>	<u>(35,426)</u>
Net cash flows from investing activities	<u>1,418,823</u>	<u>(2,050,472)</u>
Net change in cash and cash equivalents	(6,017,808)	3,036,913
Cash and Cash Equivalents, Beginning of Year	<u>19,704,741</u>	<u>16,667,828</u>
Cash and Cash Equivalents, End of Year	<u>\$ 13,686,933</u>	<u>\$ 19,704,741</u>
Reconciliation of Net Operating (Loss) Income to Net Cash Flows From Operating Activities		
Net operating (loss) income	\$ (7,727,474)	\$ 13,731,689
Changes in operating assets and liabilities:		
Contributions receivable	(1,807,023)	(355,752)
Other receivables	67,864	1,318,511
Prepaid expenses	(193,400)	(50,288)
Accounts payable	(245,021)	370,994
Assessments payable	215,333	(269,446)
Unearned premium	(439,875)	107,480
Claims payable/claims to be paid	2,691,567	(9,763,985)
Reserve for unallocated loss adjustment expenses	<u>1,398</u>	<u>(1,818)</u>
Net cash from operating activities	<u>\$ (7,436,631)</u>	<u>\$ 5,087,385</u>

See accompanying notes to the financial statements.

Vermont Education Health Initiative, Inc.

Notes to the Financial Statements

Years ended June 30, 2023 and 2022

Note A - Organization and Nature of Operations

Vermont Education Health Initiative, Inc. (VEHI or the Company) was established in 1996 by the Vermont National Education Association (VT-NEA) and the Vermont School Boards Insurance Trust, Inc. (VSBIT) to provide schools and related organizations with health insurance and other related coverage.

VEHI is considered an Intermunicipal Insurance Association under Vermont law and is regulated by the Vermont Department of Financial Regulation. Membership in VEHI is limited to municipal school districts and their instrumentalities and agencies.

School Districts joining VEHI must remain members for a minimum of one year. A member may withdraw from VEHI after that time by giving ninety (90) day notice. In 2016, the Board added a twenty-four (24) month waiting period for a member to rejoin after leaving either program. VEHI currently provides health coverage to 144 schools and related organizations and dental coverage to 106 schools and related organizations as of June 30, 2023 and provided coverage to 144 schools and related organizations and dental coverage to 105 schools and related organizations as of June 30, 2022.

The major accounting policies followed by VEHI are presented below to assist the reader in evaluating the financial statements.

Note B - Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Company 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. The Fund follows all statements in accordance with Governmental Accounting Standards Board (GASB). The Fund uses the economic resources measurement focus and the accrual basis of accounting.

VEHI reports itself as a business-type activity as defined in GASB 34. Business-type activities are financed in whole or in part by fees charged to external parties. Business-type activities distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with VEHI's principal ongoing operations. The principal operating revenues of VEHI includes health contributions and fees received from providing services. Operating expenses include health claims paid and the costs of providing services and operating all programs. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Vermont Education Health Initiative, Inc.

Notes to the Financial Statements (Continued)

Note B - Summary of Significant Accounting Policies (Continued)

Investment Risks and Uncertainties

The Fund invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, liquidity, and credit risk, as further described in Note D. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities may occur in the near term and those changes could materially affect the amounts reported on the statements of net position.

Reclassification

Certain balances in the 2022 financial statements have been reclassified to conform to the 2023 presentation. There were no changes to net position or changes in net position for the year ended June 30, 2022.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein. Significant estimates included in these financial statements primarily relate to the assumptions and methods used to estimate the ultimate liability for unpaid losses and loss adjustment expenses as described below.

Taxes

VEHI incorporated as a Nonprofit Corporation under the Nonprofit Corporation Act. All their revenue is exempt from Federal and State income taxes under Internal Revenue Code Section 115 which pertains to political subdivisions.

Subsequent Events

The Company has evaluated subsequent events for disclosure and recognition through September 26, 2023, the date on which these financial statements were available to be issued.

Revenue Recognition

Contributions are earned monthly in the period of coverage.

Health insurance contributions are determined by VEHI with analysis from Blue Cross and Blue Shield of Vermont and approved by the Vermont Department of Financial Regulation.

Dental insurance contributions for participating school districts are individually determined by VEHI with analysis from an independent actuarial consultant. Rates are approved by the Vermont Department of Financial Regulation.

Vermont Education Health Initiative, Inc.

Notes to the Financial Statements (Continued)

Note B - Summary of Significant Accounting Policies (Continued)

Liability for Claims to be Paid

The liability for claims to be paid include estimates by management of incurred losses not yet paid by Blue Cross and Blue Shield of Vermont and Northeast Delta Dental on behalf of VEHI. The liability is based upon the available data of the amount necessary to cover the ultimate cost of losses, however, actual loss experience may not conform to the actuarial and statistical assumptions used in determining the estimated amounts for such liability. Accordingly, the ultimate liability could be significantly in excess of or less than the amount indicated. As adjustments to these estimates become necessary, such adjustments are reflected in current operations.

Mutual Funds, At Fair Value

Mutual funds, at fair value with readily determinable fair values are reported at their fair values. Unrealized gains and losses are included in revenue.

VEHI categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Contributions Receivable

VEHI uses the allowance method for uncollectible accounts. The allowance for doubtful accounts as of June 30, 2023 and 2022 is \$0.

Working Fund Deposit

The Working Fund Deposit consists of a non-interest bearing cash account in the amount of \$4,730,000 and \$5,370,000 at June 30, 2023 and 2022, respectively, that is maintained at Blue Cross and Blue Shield. This imprest account is used to pay claims by VEHI's claims processors. These are estimated to be one week's claims payable.

Other Receivables

Other Receivables at June 30, 2023 and 2022, consists of amounts recorded for admin billing and wellness expenses incurred that are reimbursable to VEHI. Amounts are all deemed to be fully collectible.

Prepaid Expenses

Prepaid expenses of \$315,274 and \$121,874 as of June 30, 2023 and 2022, respectively, represents payments made during the current fiscal year for products and services to be provided during the following fiscal year.

Vermont Education Health Initiative, Inc.

Notes to the Financial Statements (Continued)

Note B - Summary of Significant Accounting Policies (Continued)

Advance Premiums

Advance premiums of \$732,783 and \$1,172,658 as of June 30, 2023 and 2022, respectively, represents health and dental insurance contributions received in advance for fiscal year 2024 and 2023, respectively.

Grant Revenue

VEHI was awarded a grant from the State of Vermont Agency of Education for a sum not to exceed \$1,295,000 with an award start date of August 15, 2022 and end date of September 30, 2024. This grant is to support development and implementation of expanded wellness programs in Vermont schools. VEHI recognizes grant revenue as expenses are incurred in relation to the grant agreement.

Administrative Performance Revenue

The administrative performance revenue of \$0 and \$4,000 for 2023 and 2022, respectively, represents penalties per an agreement between Blue Cross and Blue Shield of Vermont and VEHI. Blue Cross and Blue Shield of Vermont is subject to penalties for failure to provide high levels of services as described in the agreement.

Note C - Affiliated Organizations and Related Party Transactions

The Company is governed by the VT-NEA and the Vermont School Boards Association (VSBA).

VSBIT and VT-NEA jointly manage VEHI.

VEHI contracts with VSBIT to provide management, wellness and accounting services. VEHI paid VSBIT \$1,133,396 and \$1,076,181 for these services in 2023 and 2022, respectively. Furthermore, the President for VSBIT was the president for VEHI until October, 2019. Also, VEHI's Corporate Secretary is a VEHI board member. Beginning July 1, 2014, VEHI has a five (5) year contract with VSBIT for services. After the end of the initial five year term, the contract automatically renews for two (2) additional three (3) year terms. The contract can be cancelled by either party at the end of the initial term and each additional term.

VEHI contracts with VT-NEA to provide program and member services. VT-NEA was paid \$225,177 and \$214,070 for services in 2023 and 2022, respectively. The fee is subject to adjustment each year.

Note D - Cash and Investments

Cash and Cash Equivalents

VEHI's cash and cash equivalents are considered to be cash on hand, demand deposits, and all highly liquid investments with original maturities of three months or less from the date acquired by VEHI.

Vermont Education Health Initiative, Inc.

Notes to the Financial Statements (Continued)

Note D - Cash and Investments (Continued)

The Federal Deposit Insurance Corporation (FDIC) insures amounts on deposit up to the limits as prescribed by law. VEHI holds funds with financial institutions in excess of, or non FDIC insured amounts, however, VEHI has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk on cash and cash equivalents.

Cash and cash equivalents as of June 30, 2023 and 2022 consist of the following:

	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Checking account	\$ 793,720	\$ 1,863,335
Dreyfus Government Cash Management Institutional Fund	<u>12,893,213</u>	<u>17,841,406</u>
Total cash and cash equivalents	<u>\$ 13,686,933</u>	<u>\$ 19,704,741</u>

The custodial credit risk for cash deposits is as follows:

	<u>June 30, 2023</u>		<u>June 30, 2022</u>	
	Book Balance	Bank Balance	Book Balance	Bank Balance
Insured/(FDIC)	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000
Uninsured, uncollateralized	<u>13,436,933</u>	<u>13,490,163</u>	<u>19,454,741</u>	<u>19,454,741</u>
Total	<u>\$ 13,686,933</u>	<u>\$ 13,740,163</u>	<u>\$ 19,704,741</u>	<u>\$ 19,704,741</u>

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

The checking account is linked with the Dreyfus Government Cash Management Institutional Fund investment such that excess balances are swept daily to maximize interest earned.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, VEHI will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

The custodial credit risk for investments is the risk that, in the event of failure of the counter-party (e.g. broker-dealer) to a transaction, VEHI will not be able to recover the value of its investments or collateral securities that are in possession of another party.

The account with M&T Bank requires minimum daily balances and the residual amounts are transferred to M&T Bank Investment Services and are invested in cash equivalents.

Vermont Education Health Initiative, Inc.

Notes to the Financial Statements (Continued)

Note D - Cash and Investments (Continued)

VEHI's mutual funds are open-ended and are not exposed to custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. All of the securities in the mutual funds, except the Vanguard Total Stock Market Index Fund, whereas the underlying securities all mature in one (1) year or less.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The mutual funds are not rated.

Concentration of Credit Risk

The limitations on the amount that can be invested in any one issuer are disclosed previously in the investment policy. No investments, other than mutual funds, represented more than 5% of total investments at June 30, 2023 and 2022.

Fair Value

VEHI has the following recurring fair value measurements as of June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Quoted market prices (Level 1 inputs):		
Mutual funds, at fair value	<u>\$ 41,177,702</u>	<u>\$ 39,373,154</u>
Investments, at fair value	<u>\$ 41,177,702</u>	<u>\$ 39,373,154</u>

Note E - Claims Payable

The claims payable of \$6,329,039 as of June 30, 2023 represents \$6,155,087 of health claims and \$173,952 of dental claims due to Blue Cross and Blue Shield of Vermont and Northeast Delta Dental for benefits actually paid by them as of June 30, 2023 but not reimbursed by VEHI as of that date.

The claims payable of \$5,052,909 as of June 30, 2022 represents \$4,773,821 of health claims and \$279,088 of dental claims due to Blue Cross and Blue Shield of Vermont and Northeast Delta Dental for benefits actually paid by them as of June 30, 2022 but not reimbursed by VEHI as of that date.

Vermont Education Health Initiative, Inc.

Notes to the Financial Statements (Continued)

Note F - Claims To Be Paid

As discussed in Note B, VEHI establishes claims liabilities based on estimates of the ultimate cost of claims that have been incurred but not paid or settled as of year end. Estimated amounts of reinsurance on unpaid claims are deducted from the unpaid claims. Claims liabilities are computed by management and actuaries using a variety of actuarial and statistical techniques. Adjustments to claims liabilities are charged or credited to expense in the periods in which they occur.

Claims to be paid of \$3,476,941 as of June 30, 2023 represents \$3,221,941 of health claims and \$255,000 of dental claims incurred as of June 30, 2023 but not paid by Blue Cross and Blue Shield of Vermont and Northeast Delta Dental as of that date.

Claims to be paid of \$2,061,504 as of June 30, 2022 represents \$1,791,504 of health claims and \$270,000 of dental claims incurred as of June 30, 2022 but not paid by Blue Cross and Blue Shield of Vermont and Northeast Delta Dental as of that date.

The following represents changes in the liability for claims to be paid and claims payable, net of the effects of reinsurance, during the years ended June 30,

	<u>2023</u>	<u>2022</u>
Liability at beginning of year, net of reinsurance and deductibles	\$ 7,114,412	\$ 16,878,398
Provision for losses:		
Provision for insured events of the current year	272,030,485	262,587,646
Change in provision for insured events of prior years	<u>362,156</u>	<u>(2,177,580)</u>
Total provision for losses during the year	272,392,641	260,410,066
Payments:		
Claims and claims adjustment expenses attributable to insured events of the current year	(260,684,985)	(255,473,234)
Claims and claims adjustment expenses attributable to insured events of prior years	<u>(9,016,088)</u>	<u>(14,700,818)</u>
Total payments during the year	<u>(269,701,073)</u>	<u>(270,174,052)</u>
Liability at end of year, net of reinsurance and deductibles	<u>\$ 9,805,980</u>	<u>\$ 7,114,412</u>

Note G - Insurance Activity

VEHI purchases reinsurance through Blue Cross Blue Shield of Vermont which limits the Trust's liability to \$750,000 per person per year thus protecting VEHI from large losses. VEHI does not have aggregate reinsurance.

Vermont Education Health Initiative, Inc.

Notes to the Financial Statements (Continued)

Note H - Assessments

VEHI pays various assessments based on local and federal mandates as follows:

During fiscal year 2016, the State of Vermont consolidated two programs, the Vermont Information Technology Leaders (VITL), and the Vermont Health Care Claims Assessment (HCCA). VITL fees of .199% were effective October 1, 2009 and HCCA fees of .8% were effective October 1, 2011 on claims paid and capitation payments for Vermont residents. As consolidated programs, the State of Vermont assesses a fee of .999%.

Vermont Blueprint for Health (Blueprint) – This is a State of Vermont program that pays providers based on performance and the amount paid to providers is determined by the National Committee for Quality Assurance ratings. The State of Vermont maintains a table that provides a per member per month equivalent for the results reported.

Patient Centered Outcomes Research (PCOR) – This is a Federal fee on all memberships of \$2 per member per year for policies ending in the fiscal year 2014. Thereafter, the fee will increase at the cost of medical inflation and will continue through 2029 as provided by the Further Consolidated Appropriations Act, 2020. This assessment went into effect with the Patient Protection and Affordable Care Act of 2010. The fee for fiscal year 2023 and 2022 was \$3.00 and \$2.79, respectively, per member.

Assessment fees paid to Blue Cross and Blue Shield of Vermont and Northeast Delta Dental for State and Federal mandated insurance fees were as follows:

	<u>2023</u>	<u>2022</u>
HCCA	\$ 2,757,813	\$ 2,574,946
Blueprint	2,084,783	1,941,713
PCOR	108,406	109,985
Out of State Assessments	<u>23,136</u>	<u>25,231</u>
Totals	<u>\$ 4,974,138</u>	<u>\$ 4,651,875</u>

Note I - Net Position

For the years ended June 30, 2023 and 2022, VEHI has a reserve of net position which represents an operating surplus of \$51,345,802 and \$56,417,566, respectively. This surplus will be used to help fund the health and dental programs to the reinsurance attachment point and to minimize future rate increases.

Vermont Education Health Initiative, Inc.

Notes to the Financial Statements (Continued)

Note J - Risk Management

VEHI is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. VEHI maintains commercial insurance coverage. Management believes such coverage is sufficient to preclude any significant uninsured losses to VEHI. Settled claims have not exceeded this coverage in any of the past three fiscal years.

Vermont Education Health Initiative, Inc.

Claims Development Information (Unaudited)

June 30, 2023

This table illustrates how VEHI's earned revenues (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by VEHI as of the end of each of the last ten years.

The rows of the table are defined as follows:

1. This line shows the gross of each fiscal year's earned contribution revenues and investment revenues.
2. This line shows each fiscal year's reinsurance and capitation premiums.
3. This line shows the net of each fiscal year's earned contribution revenues and investment revenues.
4. This line shows each fiscal year's other operating costs of VEHI including overhead and claims expense not allocable to individual claims.
5. This line shows VEHI's incurred claims and allocated claims adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
6. This section of rows shows the cumulative amounts paid as of the end of successive years for each policy year.
7. This section of rows shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims as well as emergence of new claims not previously known.
8. This line compares the latest re-estimated incurred claims amount to the amount originally established (line 5) and shows whether this latest estimate of claims cost is greater or less than originally determined.

The columns of the table show data for successive policy years.

Vermont Education Health Initiative, Inc.
 Claims Development Information (Unaudited)

For the Year Ended June 30, 2023

	Fiscal and Coverage Year Ended (in thousands of dollars)									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
(1) Gross contributions and investment income	\$ 296,192,417	\$ 301,177,020	\$ 300,365,156	\$ 275,205,815	\$ 249,283,409	\$ 267,508,230	\$ 305,885,229	\$ 285,553,035	\$ 276,177,685	\$ 267,907,885
(2) Less: Reinsurance expenses	5,045,623	5,301,532	5,611,976	6,330,987	5,131,285	5,190,399	6,424,168	6,796,007	7,033,506	7,197,659
(3) Net earned premiums and investment income	291,146,794	295,875,488	294,753,180	268,874,828	244,152,124	262,317,831	299,461,061	278,757,028	269,144,179	260,710,226
(4) Unallocated expenses	23,825,918	23,885,098	24,366,800	23,672,471	22,511,368	21,770,389	21,590,201	22,548,115	22,783,885	20,531,034
(5) Estimated losses and allocated expenses incurred, net at the end of year:	272,030,485	262,587,646	271,978,150	235,855,989	229,540,314	249,083,464	264,141,456	249,855,083	247,689,300	234,301,608
(6) Net paid (cumulative) as of:										
End of coverage year	262,224,505	255,473,234	255,099,752	218,775,443	218,145,123	237,867,034	245,590,504	233,633,608	230,715,254	220,227,806
One year later		262,949,801	269,800,570	233,685,160	236,916,942	247,244,932	262,827,882	250,399,022	246,425,798	234,471,434
Nine years later										-
(7) Reestimated net incurred losses and allocated expenses										
End of coverage year	272,030,485	262,587,646	271,978,150	235,866,989	229,540,314	249,083,464	264,141,456	249,855,083	247,689,300	234,301,608
One year later		262,949,801	269,800,570	233,685,160	236,916,942	247,244,932	262,827,882	250,399,022	246,425,798	234,471,434
Two years later			269,800,570	233,685,160	236,916,942	247,244,932	262,827,882	250,399,022	246,425,798	234,471,434
Three years later				233,685,160	236,916,942	247,244,932	262,827,882	250,399,022	246,425,798	234,471,434
Four years later					236,916,942	247,244,932	262,827,882	250,399,022	246,425,798	234,471,434
Five years later						247,244,932	262,827,882	250,399,022	246,425,798	234,471,434
Six years later							262,827,882	250,399,022	246,425,798	234,471,434
Seven years later								250,399,022	246,425,798	234,471,434
Eight years later									246,425,798	234,471,434
Nine years later										234,471,434
(8) Increase (decrease) in estimated net incurred losses and allocated expenses from end of coverage year	N/A	\$ 362,155	\$ (2,177,580)	\$ (2,170,829)	\$ 7,376,628	\$ (1,838,532)	\$ (1,313,574)	\$ 543,939	\$ (1,263,502)	\$ 169,826

Vermont Education Health Initiative, Inc.

Reconciliation of Claim Liabilities by Type of Contract (Unaudited)

Years ended June 30, 2023 and 2022

	Health		Dental		Total	
	2023	2022	2023	2022	2023	2022
Reserve for claims at beginning of year, net of reinsurance	\$ 6,565,324	\$ 16,448,582	\$ 549,088	\$ 429,816	\$ 7,114,412	\$ 16,878,398
Losses and LAE incurred relating to:						
Current year	264,468,541	255,464,262	7,561,944	7,123,384	272,030,485	262,587,646
Prior years	407,941	(2,147,867)	(45,785)	(29,713)	362,156	(2,177,580)
Total losses and LAE incurred	<u>264,876,482</u>	<u>253,316,395</u>	<u>7,516,159</u>	<u>7,093,671</u>	<u>272,392,641</u>	<u>260,410,066</u>
Losses and LAE paid relating to:						
Current year	253,551,993	248,898,938	7,132,992	6,574,296	260,684,985	255,473,234
Prior years	8,512,785	14,300,715	503,303	400,103	9,016,088	14,700,818
Total losses and LAE paid	<u>262,064,778</u>	<u>263,199,653</u>	<u>7,636,295</u>	<u>6,974,399</u>	<u>269,701,073</u>	<u>270,174,052</u>
Reserve for claims at end of year, net of reinsurance	<u>\$ 9,377,028</u>	<u>\$ 6,565,324</u>	<u>\$ 428,952</u>	<u>\$ 549,088</u>	<u>\$ 9,805,980</u>	<u>\$ 7,114,412</u>

Vermont Education Health Initiative, Inc.

Combining Statement of Net Position (Unaudited)

June 30, 2023

	<u>Health</u>	<u>Dental</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 12,948,520	\$ 738,413	\$ 13,686,933
Mutual funds, at fair value	34,620,847	6,556,855	41,177,702
Accrued interest receivable	87,192	4,972	92,164
Contributions receivable	2,968,506	84,121	3,052,627
Working fund deposit	4,730,000	-	4,730,000
Other receivables	303,217	-	303,217
Prepaid expenses	<u>313,334</u>	<u>1,940</u>	<u>315,274</u>
Total Assets	<u>\$ 55,971,616</u>	<u>\$ 7,386,301</u>	<u>\$ 63,357,917</u>
Liabilities and Net Position			
Liabilities			
Accounts payable	\$ 530,375	\$ 171,789	\$ 702,164
Assessments payable	682,170	74,365	756,535
Advance premiums	728,998	3,785	732,783
Claims payable	6,155,087	173,952	6,329,039
Claims to be paid	3,221,941	255,000	3,476,941
Reserve for unallocated loss adjustment expenses	<u>14,653</u>	<u>-</u>	<u>14,653</u>
Total Liabilities	11,333,224	678,891	12,012,115
Net Position			
Unrestricted	<u>44,638,392</u>	<u>6,707,410</u>	<u>51,345,802</u>
Total Net Position	<u>44,638,392</u>	<u>6,707,410</u>	<u>51,345,802</u>
Total Liabilities and Net Position	<u>\$ 55,971,616</u>	<u>\$ 7,386,301</u>	<u>\$ 63,357,917</u>

Vermont Education Health Initiative, Inc.

Combining Statement of Revenues, Expenses, and Changes in Net Position
(Unaudited)

Year ended June 30, 2023

	<u>Health</u>	<u>Dental</u>	<u>Total</u>
Operating Revenues			
Program contributions	\$ 285,432,254	\$ 8,077,535	\$ 293,509,789
Grant revenue	<u>119,924</u>	<u>-</u>	<u>119,924</u>
Total operating revenues	285,552,178	8,077,535	293,629,713
Operating Expenses			
Net change in claims paid and reserved	264,876,482	7,516,159	272,392,641
Reinsurance	3,827,657	-	3,827,657
Capitation	1,217,966	-	1,217,966
Assessments	4,902,473	71,665	4,974,138
Program administration	14,131,887	577,695	14,709,582
General and administrative expenses	1,522,106	385,281	1,907,387
Wellness grants and expenses	<u>2,211,366</u>	<u>116,450</u>	<u>2,327,816</u>
Total operating expenses	<u>292,689,937</u>	<u>8,667,250</u>	<u>301,357,187</u>
Net operating loss	(7,137,759)	(589,715)	(7,727,474)
Non-operating Revenues (Expenses)			
Investment income	2,363,804	318,824	2,682,628
Investment fees	<u>(25,519)</u>	<u>(1,399)</u>	<u>(26,918)</u>
Net non-operating revenues	<u>2,338,285</u>	<u>317,425</u>	<u>2,655,710</u>
Change in net position	(4,799,474)	(272,290)	(5,071,764)
Net position, beginning of year	<u>49,437,866</u>	<u>6,979,700</u>	<u>56,417,566</u>
Net position, end of year	<u>\$ 44,638,392</u>	<u>\$ 6,707,410</u>	<u>\$ 51,345,802</u>