

VERMONT EDUCATION HEALTH INITIATIVE, INC.

AUDIT REPORT

JUNE 30, 2017 AND 2016

VERMONT EDUCATION HEALTH INITIATIVE, INC.
AUDIT REPORT
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JUNE 30, 2017 AND 2016

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Independent Auditor's Report

Board of Directors
Vermont Education Health
Initiative, Inc.
52 Pike Drive
Berlin, Vermont 05602

Report on the Financial Statements

We have audited the accompanying financial statements of the Vermont Education Health Initiative, Inc., as of and for the years ended June 30, 2017 and 2016 as listed in the Table of Contents.

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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 Vermont Education Health Initiative, Inc.'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 Vermont Education Health Initiative, Inc.'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

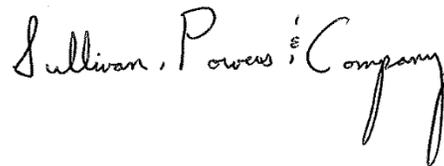
In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the Vermont Education Health Initiative, Inc. as of June 30, 2017 and 2016 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 7 and the financial information listed as Tables 1 and 2 in the table of contents 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.

September 18, 2017
Montpelier, Vermont
VT Lic. #92-000180

A handwritten signature in black ink that reads "Sullivan, Powers & Company". The signature is written in a cursive style with a large, stylized initial 'S' and a long, sweeping tail on the 'y'.

VERMONT EDUCATION HEALTH INITIATIVE

MANAGEMENT'S DISCUSSION AND ANALYSIS

For The Year Ended June 30, 2017

The Vermont Education Health Initiative (VEHI) is a large group purchaser of health care and related benefit plans for school district employees and retirees in Vermont. 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. VEHI is managed jointly by the Vermont School Boards Insurance Trust (VSBIT) and the Vermont-NEA (VT-NEA).

VEHI's mission is to offer high-quality employee benefit options and related services in a cost effective manner on behalf of its members. As a member organization, VEHI plays an active role in all areas of health care and related benefit plan design, financing, marketing, risk management, wellness, consumer education and customer service.

Effective June 7, 2013 VEHI was approved as an Intermunicipal Insurance Association by the Vermont Department of Financial Regulation.

Fiscal 2017 Highlights and Overall Financial Position

During the year ending June 30, 2017, VEHI, partnered with Blue Cross Blue Shield of Vermont and Northeast Delta Dental to provide health insurance to 274 and dental insurance coverage to 195 schools and related organizations.

VEHI's program contributions totaled \$305,613,466 in 2017, an increase of \$20.8 million from 2016. VEHI holds \$1.1 million in contribution receivable and \$2.2 million in prepaid contributions as of June 30, 2017. VEHI earned \$271,763 in investment income in 2017, a decrease of \$430,063 from 2016. VEHI also received \$764,583 from Blue Cross Blue Shield of Vermont in value added and administrative performance revenue.

VEHI's overall net position increased by \$13.2 million in 2017: from \$41.4 to \$54.6 million. The Health Program's net position increased by \$13.1 million. The Dental Program's net position increased by \$102 thousand. This follows a \$7.6 million increase in overall net position in 2016.

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.

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 the Corporation'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 the Corporation.

FINANCIAL INFORMATION

SUMMARY OF REVENUE AND EXPENSES

	<u>2017</u>	<u>2016</u>
Operating Revenues:	\$ <u>306,378,049</u>	\$ <u>285,611,065</u>
Operating Expenses:		
Net Change in Health/Dental Claims Paid and Reserved	264,685,395	248,591,581
Capitation-Health	3,347,764	3,442,794
Reinsurance & Administration-Health/Dental	16,507,148	17,044,800
Assessments	5,035,922	5,844,687
Other Expenses	<u>3,849,305</u>	<u>3,764,248</u>
Total Operating Expenses	<u>293,425,534</u>	<u>278,688,110</u>
Operating Income	<u>12,952,515</u>	<u>6,922,955</u>
Non-operating Revenue		
Total Investment Activity	<u>232,950</u>	<u>694,374</u>
Change in Net Position	13,185,465	7,617,329
Net Position - Beginning of Year	<u>41,455,501</u>	<u>33,838,172</u>
Net Position - End of Year	\$ <u>54,640,966</u>	\$ <u>41,455,501</u>

Revenues

VEHI's fiscal 2017 operations resulted in an increase in net position of \$13.2 million, following the 2016 increase of \$7.6 million. For FY17 VEHI raised health rates by 7.9%. This followed a 4.5% increase for fiscal year 2016. All revenues for 2017 are considered operating revenues except for investment income. VEHI earned \$306.4 million in revenues versus \$293.4 million in total expenses in 2017. Revenues come primarily from program contributions which increased \$20.8 million for health in 2017. Dental contributions decreased \$32 thousand as overall the rates for the Dental Program were reduced by 2.34% on average.

Investments are held at the Peoples United Bank and with the Vanguard Group in the form of money market accounts and government and corporate bonds. VEHI earned \$685 thousand in interest and dividends in 2017, up from \$550 thousand in 2016. The bond market performance declined in 2017. VEHI recorded a negative market change of \$413 thousand as compared to a positive market change of \$152 thousand in 2016.

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 \$264.7 million in 2017, \$16.1 million over the 2016 claims expense. Capitation expense decreased slightly by \$95 thousand, from \$3.44 million to \$3.34 million.

Reinsurance and administrative expenses paid to Blue Cross Blue Shield of Vermont and Northeast Delta Dental make up \$16.5 million of total expenses in 2017, a \$500 thousand decrease from 2016. Beginning with FY15 the Blue Cross Blue Shield of Vermont administrative fee includes a contribution to its reserve funds as approved by the Green Mountain Care Board.

In 2013 State and Federal assessments to VEHI were \$3.48 million. Through FY16 assessments have continued to increase, totaling \$5.8 million for FY16. In FY17 assessments decreased to \$5 million. This is a result of federal assessments decreasing by \$1.3 million while state assessments continue to grow. Vermont assessments totaled \$4.7 million, federal assessments totaled \$330 thousand, and out of state assessments were \$20,790.

VEHI incurred other expenses in the amount of \$3.85 million, an \$85 thousand increase from 2016. In 2016, VEHI contracted with Remedy Analytics, for \$500 thousand per year, to bring additional expertise and analytical tools to the pharmacy arena. With support from Remedy, BCBSVT renegotiated on VEHI's behalf a three year contract with Express Scripts, resulting in increased cost savings for VEHI members. With additional data on pharmacy utilization and pricing available from Remedy's technology, VEHI will work with BCBSVT to further reduce pharmacy spend without negatively impacting membership. Savings during FY16 and FY17 totaled over \$10 million dollars. VEHI offers the PATH (Planned Action Toward Health) Program to all members. This expense, in the amount of \$1.9 million, makes up the majority of other expenses. 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. Administrative services are provided to VEHI by VSBIT and the VT-NEA. For the year ending June 30, 2017 VEHI incurred expenses of \$1.1 million in accordance with administrative services contracts with these entities. The remaining \$355 thousand of other expenses was paid directly to vendors by VEHI.

CONDENSED FINANCIAL INFORMATION

SUMMARY OF NET POSITION

	<u>2017</u>	<u>2016</u>
Assets:		
Cash and investments	\$70,002,189	\$53,345,637
Other Assets	<u>6,621,665</u>	<u>7,560,263</u>
Total Assets	<u>\$76,623,854</u>	<u>\$60,905,900</u>
Liabilities:		
Deferred Revenue	\$ 2,243,760	\$ 2,193,788
Other Payables	<u>19,739,128</u>	<u>17,256,611</u>
Total Liabilities	<u>21,982,888</u>	<u>19,450,399</u>
Net Position:		
Unrestricted Net Position	<u>54,640,966</u>	<u>41,455,501</u>
Total Net Position	<u>54,640,966</u>	<u>41,455,501</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$76,623,854</u>	<u>\$60,905,900</u>

Assets

Cash and investments are held at the Peoples United Bank and at the Vanguard Group in the form of money market accounts and government and corporate bonds.

Other assets totaling \$6.6 million consists mainly of a working fund deposit in the amount of \$5.3 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 \$1.1 million in contribution receivable as of June 30.

Liabilities

VEHI collected \$2.2 million in contribution for fiscal year 2018 prior to June 30, 2017 due to payment timing by our member schools. This is consistent with last year.

Other payables of \$19.7 million consist primarily of claims payable to Blue Cross Blue Shield of Vermont and Northeast Delta Dental in the amount of \$18.6 million. Also included; \$729 thousand due for state and federal assessments, \$7,101 in accrued administration fees to process the claims payable, and \$451 thousand due to other vendors.

Economic Factors

For fiscal year 2018, the Department of Financial Regulation approved a 0% health rate increase for July-December 2017, with a decrease of 2% for VSTRS Medicare eligible plans. This follows a 7.9% increase for 2017. On January 1, 2018 VEHI will no longer be offering its current selection of health plans. Four new plans will be offered to VEHI's membership, with lower premiums and higher out of pocket exposure.

Dental insurance contributions were decreased by .4% on average for fiscal year 2018, following a 2.34% decrease for fiscal year 2017.

Requests for Information

The 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 information should be addressed to the President, Vermont Education Health Initiative, Inc., 52 Pike Drive, Berlin, VT 05602.

VERMONT EDUCATION HEALTH INITIATIVE, INC.
STATEMENT OF NET POSITION
JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
Current Assets:		
Cash - Note 2	\$ 914,472	\$ 478,456
Investments - Note 2	69,087,717	52,867,181
Accrued Interest Receivable	72,405	85,723
Contributions Receivable	1,131,556	2,400,000
Working Fund Deposit - Note 3	5,309,382	4,985,109
Other Receivables - Note 4	65,420	67,051
Prepaid Expenses - Note 5	<u>42,902</u>	<u>22,380</u>
Total Current Assets	<u>76,623,854</u>	<u>60,905,900</u>
TOTAL ASSETS	<u>\$ 76,623,854</u>	<u>\$ 60,905,900</u>
<u>LIABILITIES AND NET POSITION</u>		
Current Liabilities:		
Accounts Payable	\$ 431,582	\$ 360,062
Assessments Payable	729,494	669,199
Other Liabilities - Wellness Funds	20,000	0
Unearned Revenue - Note 6	2,243,760	2,193,788
Claims Payable - Note 7	18,550,951	16,221,475
Reserve for Unallocated Loss Adjustment Expenses	<u>7,101</u>	<u>5,875</u>
Total Current Liabilities	<u>21,982,888</u>	<u>19,450,399</u>
Total Liabilities	<u>21,982,888</u>	<u>19,450,399</u>
Net Position:		
Unrestricted Net Position	<u>54,640,966</u>	<u>41,455,501</u>
Total Net Position - Note 8	<u>54,640,966</u>	<u>41,455,501</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 76,623,854</u>	<u>\$ 60,905,900</u>

The accompanying notes are an integral part of this financial statement.

VERMONT EDUCATION HEALTH INITIATIVE, INC.
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Operating Revenues:		
Health Contributions	\$ 298,480,550	\$ 277,686,297
Dental Contributions	7,132,916	7,164,912
Value Payment Revenue - Note 9	763,083	756,356
Administrative Performance Revenue - Note 9	1,500	3,500
	<u>306,378,049</u>	<u>285,611,065</u>
Total Operating Revenues		
Operating Expenses:		
Net Change in Health Claims Paid and Reserved - Note 10	258,567,758	242,488,800
Net Change in Dental Claims Paid and Reserved - Note 10	6,117,637	6,102,781
Reinsurance and Administration - Health	15,956,005	16,461,857
Capitation - Health	3,347,764	3,442,794
Assessments - Note 11	5,035,922	5,844,687
Program Administration - Dental	551,143	582,943
General and Administrative Expenses - Note 12	1,939,685	1,911,911
Wellness Grants and Expenses	1,909,620	1,852,337
	<u>293,425,534</u>	<u>278,688,110</u>
Total Operating Expenses		
Operating Income	<u>12,952,515</u>	<u>6,922,955</u>
Nonoperating Revenues/(Expenses):		
Investment Income	271,763	701,826
Investment Fees	(38,813)	(7,452)
	<u>232,950</u>	<u>694,374</u>
Total Nonoperating Revenues/(Expenses)		
Change in Net Position	13,185,465	7,617,329
Net Position - Beginning of Year	<u>41,455,501</u>	<u>33,838,172</u>
Net Position - End of Year	<u>\$ 54,640,966</u>	<u>\$ 41,455,501</u>

The accompanying notes are an integral part of this financial statement.

VERMONT EDUCATION HEALTH INITIATIVE, INC.
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
Cash Received from Health and Dental Contributions	\$ 306,931,882	\$ 285,466,953
Cash Received from Value Payment Revenue	764,714	756,356
Cash Received from Administrative Performance Revenue	1,500	3,500
Cash Paid for Health and Dental Claims	(262,355,919)	(249,344,152)
Cash Paid for Reinsurance, Capitation and Administration	(19,853,686)	(20,097,255)
Cash Paid for Assessments	(4,975,627)	(5,712,842)
Cash Paid for General and Administrative Expenses	(1,895,379)	(1,868,855)
Cash Paid for Wellness Grants and Expenses	(1,882,928)	(1,848,319)
	<u>16,734,557</u>	<u>7,355,386</u>
Net Cash Provided by Operating Activities		
Cash Flows from Noncapital Related Financing Activities:	<u>0</u>	<u>0</u>
Cash Flows from Capital and Related Financing Activities:	<u>0</u>	<u>0</u>
Cash Flows from Investing Activities:		
Net Increase in Long-Term Investments	(16,220,536)	(8,196,904)
Increase in Working Fund Deposit	(324,273)	(314,435)
Decrease in Advance to the Vermont State Teachers Retirement System	0	931,666
Cash Received from Interest and Dividends	285,081	707,109
Cash Paid for Investment Fees	(38,813)	(7,452)
	<u>(16,298,541)</u>	<u>(6,880,016)</u>
Net Cash Provided/(Used) by Investing Activities		
Net Increase in Cash and Cash Equivalents	436,016	475,370
Cash and Cash Equivalents, Beginning of Year	<u>478,456</u>	<u>3,086</u>
Cash and Cash Equivalents, End of Year	<u>\$ 914,472</u>	<u>\$ 478,456</u>
Reconciliation of Operating Income/(Loss) to Net Cash Provided/(Used) by Operating Activities		
Operating Income	\$ 12,952,515	\$ 6,922,955
Changes in Operating Assets and Liabilities:		
Decrease/(Increase) in Contributions Receivable	1,268,444	(90,296)
Decrease/(Increase) in Other Receivables	1,631	350,096
Decrease/(Increase) in Prepaid Expenses	(20,522)	(20,780)
Increase/(Decrease) in Accounts Payable	71,520	115,802
Increase/(Decrease) in Assessments Payable	60,295	131,844
Increase/(Decrease) in Other Liabilities - Wellness Funds	20,000	0
Increase/(Decrease) in Unearned Revenue	49,972	706,040
Increase/(Decrease) in Claims Payable	2,329,476	(752,571)
Increase/(Decrease) in Reserve for Unallocated Loss		
Adjustment Expenses	1,226	(7,704)
	<u>16,734,557</u>	<u>7,355,386</u>
Net Cash Provided by Operating Activities	<u>\$ 16,734,557</u>	<u>\$ 7,355,386</u>

The accompanying notes are an integral part of this financial statement.

VERMONT EDUCATION HEALTH INITIATIVE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Vermont Education Health Initiative, Inc. (herein, “VEHI”) was established in 1996 by the Vermont National Education Association (VNEA) and the Vermont School Boards Insurance Trust (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 274 schools and related organizations and dental coverage to 195 schools and related organizations.

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

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted by VEHI conform to generally accepted accounting principles (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles. The following is a summary of the more significant accounting policies employed in the preparation of these financial statements.

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.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The financial statements of VEHI are reported using the accrual basis of accounting. Revenues are recognized in the period in which the applicable coverage is provided and expenses are recognized in the period in which they are incurred, regardless of when the related cash flow takes place.

VERMONT EDUCATION HEALTH INITIATIVE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 1:
(Cont'd)

The financial statements of VEHI are reported using the economic resources measurement focus. This means that all assets and liabilities associated with the operation of VEHI (whether current or noncurrent) are included on the balance sheet (or statement of net position). Fund equity (i.e., total net position) is segregated into net investment in capital assets (if applicable); restricted net position; and unrestricted net position. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total position.

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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.

Health and Dental contributions and other fees are recognized 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. Blue Cross and Blue Shield pays the actual health claims filed by members of VEHI and requests reimbursement by VEHI. The agreement provides for stop loss coverage of \$750,000 per individual and 120% of expected claims on an annual basis.

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. Northeast Delta Dental pays the actual dental claims filed by members of VEHI and requests reimbursement by VEHI.

Cash includes amounts in demand deposits. Cash does not include cash equivalents in the investment accounts.

VEHI uses the allowance method for uncollectible accounts. The allowance for doubtful accounts as of June 30, 2017 and 2016 is \$0.

Investments 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.

VERMONT EDUCATION HEALTH INITIATIVE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 2: CASH AND INVESTMENTS

Cash and Investments as of June 30, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Cash - Deposits with Financial Institutions	\$ <u>914,472</u>	\$ <u>478,456</u>
Investments:		
Investments - Mutual Funds *	61,932,377	42,167,456
Investments - Corporate Bonds	<u>7,155,340</u>	<u>10,699,725</u>
Total Investments	<u>69,087,717</u>	<u>52,867,181</u>
Total Cash and Investments	<u>\$70,002,189</u>	<u>\$53,345,637</u>

At June 30, 2017, VEHI's operating account had a book balance of \$914,472 and a bank balance of \$945,706. At June 30, 2016, the book balance was \$478,456 and bank balance was \$512,414.

- * At June 30, 2017, \$40,647,622 was invested in the Dreyfus Government Cash Management Institutional Fund and \$21,284,756 was invested in the Vanguard Short-Term Bond Index Fund which includes bonds by various issuers.
- * At June 30, 2016, \$20,896,385 was invested in the Federated Institutional Prime Obligations Fund and \$21,271,071 was invested in the Vanguard Short-Term Bond Index Fund which includes bonds by various issuers.

VEHI's Board of Directors has established an investment policy which indicates which types of investments VEHI can own. VEHI has two classes of investments, Class A and Class B. Class A funds can only be invested in cash equivalents that have a maturity that will meet the projected cash flow needs on a month to month basis. Class B funds can only be invested in near cash equivalents having a maturity of five (5) years or less at the time of purchase and/or money market mutual funds.

Investments of operating funds shall be limited to insured bank deposits, repurchase agreements, U.S. Treasury or agency securities, money market funds, and commercial paper rated A-1 or P-1 or better by Standard & Poor's and Moody's, respectively, or funds which invest in similar instruments. Additionally, with respect to fixed income investments, the minimum average credit quality of these investments shall be investment grade (Standard & Poor's BBB; Moody's Baa) or higher. No one issuer, except the U.S Treasury or a sponsored agency, can exceed 10% of the market value of the portfolio. No one debt issue, except those of the U.S. Treasury or a sponsored agency, can exceed 5% of the market value of the portfolio.

VERMONT EDUCATION HEALTH INITIATIVE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 2:
(Cont'd)

Effective June 7, 2013, VEHI re-organized as an Intermunicipal Insurance Association under Regulation I-90-1. This statute limits how operating funds may be invested. VEHI's investment policy is in compliance with these restrictions.

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 the People's United Bank requires minimum daily balances and the residual amounts are transferred to People's United Bank Investment Services and are invested in cash equivalents.

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

The custodial credit risk for cash deposits is as follows:

	<u>2017</u>		<u>2016</u>	
	<u>Book</u>	<u>Bank</u>	<u>Book</u>	<u>Bank</u>
	<u>Balance</u>	<u>Balance</u>	<u>Balance</u>	<u>Balance</u>
Insured/(FDIC)	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000
Uninsured, Uncollateralized	<u>664,472</u>	<u>695,706</u>	<u>228,456</u>	<u>262,414</u>
Total	<u>\$ 914,472</u>	<u>\$ 945,706</u>	<u>\$ 478,456</u>	<u>\$ 512,414</u>

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

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.

VERMONT EDUCATION HEALTH INITIATIVE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 2:
(Cont'd)

Information about the sensitivity of the fair values of VEHI's investments to market interest rate fluctuations is provided by the following table that shows the distribution of VEHI's investments by maturity. Mutual funds are shown at their weighted average maturity and the corporate and government bonds are shown at their actual maturity.

2017			
Investment Type	Remaining Maturity		Total
	One Year Or Less	1 to 2 Years	
Mutual Funds	\$ 61,932,377	\$ 0	\$ 61,932,377
Corporate Bonds	7,155,340	0	7,155,340
Total	\$ 69,087,717	\$ 0	\$ 69,087,717

2016			
Investment Type	Remaining Maturity		Total
	One Year Or Less	1 to 2 Years	
Mutual Funds	\$ 42,167,456	\$ 0	\$ 42,167,456
Corporate Bonds	2,219,536	8,480,189	10,699,725
Total	\$ 44,386,992	\$ 8,480,189	\$ 52,867,181

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. Presented as follows are the actual ratings as of June 30, 2017 and 2016. The ratings displayed are those of Standard and Poors.

VERMONT EDUCATION HEALTH INITIATIVE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 2:
(Cont'd)

June 30, 2017				
	Corporate Bonds	Mutual Funds	Total	Percent of Total
AA	\$ 2,750,853	\$ 0	\$ 2,750,853	4%
A	3,250,315	0	3,250,315	5%
BBB	1,154,172	0	1,154,172	2%
Not rated	0	61,932,377	61,932,377	89%
	\$ 7,155,340	\$ 61,932,377	\$ 69,087,717	100%

June 30, 2016				
	Corporate Bonds	Mutual Funds	Total	Percent of Total
AA	\$ 3,520,332	\$ 0	\$ 3,520,332	7%
A	4,781,433	0	4,781,433	9%
BBB	2,397,960	0	2,397,960	5%
Not rated	0	42,167,456	42,167,456	79%
	\$ 10,699,725	\$ 42,167,456	\$ 52,867,181	100%

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, 2017 and June 30, 2016 respectively.

Fair Value

VEHI has the following recurring fair value measurements as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Quoted Market Prices (Level 1 Inputs):		
Corporate Bonds	\$ 7,155,340	\$ 10,699,725
Mutual Funds	<u>61,932,377</u>	<u>42,167,456</u>
Investment at Fair Value	<u>\$ 69,087,717</u>	<u>\$ 52,867,181</u>

VERMONT EDUCATION HEALTH INITIATIVE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 3: WORKING FUND DEPOSIT

The Working Fund Deposit consists of a non-interest bearing cash account in the amount of \$5,309,382 and \$4,985,109 at June 30, 2017 and 2016, 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.

Note 4: OTHER RECEIVABLES

Other Receivables at June 30, 2017 consists of \$65,420 due from Blue Cross and Blue Shield of Vermont for Value Payment Revenue.

Other Receivables at June 30, 2016 include \$64,571 due from Blue Cross and Blue Shield of Vermont for Value Payment Revenue. Also included in Other Receivables is \$2,480 due from others.

Note 5: PREPAID EXPENSES

Prepaid expenses represents payments made during the current fiscal year for products and services to be provided during the following fiscal year.

Note 6: UNEARNED REVENUE

Unearned revenue of \$2,243,760 as of June 30, 2017 represents \$2,193,912 of health insurance contributions and \$49,848 of dental insurance contributions received in advance for fiscal year 2018.

Unearned revenue of \$2,193,788 as of June 30, 2016 represents \$2,144,478 of health insurance contributions and \$49,310 of dental insurance contributions received in advance for fiscal year 2017.

Note 7: CLAIMS PAYABLE

VEHI establishes claims liabilities based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Estimated amounts of reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Claims liabilities were computed using a variety of actuarial and statistical techniques. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

VERMONT EDUCATION HEALTH INITIATIVE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 7:
(Cont'd)

The claims payable of \$18,550,951 as of June 30, 2017 represents \$7,356,794 of health claims and \$147,886 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, 2017 but not reimbursed by VEHI as of that date and it also includes \$10,848,271 of health claims and \$198,000 of dental claims incurred as of June 30, 2017 but not paid by Blue Cross and Blue Shield of Vermont and Northeast Delta Dental as of that date.

The claims payable of \$16,221,475 as of June 30, 2016 represents \$3,737,890 of health claims and \$103,197 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, 2016 but not reimbursed by VEHI as of that date and it also includes \$12,159,688 of health claims and \$220,700 of dental claims incurred as of June 30, 2016 but not paid by Blue Cross and Blue Shield of Vermont and Northeast Delta Dental as of that date.

Note 8: NET POSITION

For the year ended June 30, 2017, VEHI has a reserve of net position which represents an operating surplus of \$54,640,966. This surplus will be used to help fund the health program to the reinsurance attachment point and to minimize future rate increases.

For the year ended June 30, 2016, VEHI has a reserve of net position which represents an operating surplus of \$41,455,501. This surplus will be used to help fund the health program to the reinsurance attachment point and to minimize future rate increases.

Note 9: VALUE PAYMENT REVENUE/ADMINISTRATIVE PERFORMANCE REVENUE

The Value Payment Revenue of \$763,083 and \$756,356 for 2017 and 2016, respectively, represent amounts received from Blue Cross and Blue Shield of Vermont as a service credit for value added service provided to its members by VEHI which ultimately reduces the amount of administration provided by Blue Cross and Blue Shield of Vermont. This service credit revenue is equal to \$2.91 per contract per month for the years ending June 30, 2017 and June 30, 2016, respectively.

The Administrative Performance Revenue of \$1,500 and \$3,500 for 2017 and 2016, respectively, represent 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.

VERMONT EDUCATION HEALTH INITIATIVE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 10: CLAIMS PAID AND PAYABLE

An analysis of the net change in health and dental claims paid and payable is as follows:

	<u>2017</u>	<u>2016</u>
Health Claims Paid (Net of Recoveries)	\$256,260,270	\$243,326,268
Payable - End of Year	18,205,066	15,897,578
Less: Payable - Beginning of Year	<u>(15,897,578)</u>	<u>(16,735,046)</u>
Net Change in Health Claims Paid and Reserved	<u>\$258,567,758</u>	<u>\$242,488,800</u>
	<u>2017</u>	<u>2016</u>
Dental Claims Paid (Net of Recoveries)	\$ 6,095,648	\$ 6,017,884
Payable - End of Year	345,886	323,897
Less Payable - Beginning of Year	<u>(323,897)</u>	<u>(239,000)</u>
Net Change in Dental Claims Paid and Reserved	<u>\$ 6,117,637</u>	<u>\$ 6,102,781</u>

Note 11: ASSESSMENTS

For the year ending June 30, 2017 and 2016, assessments included \$4,882,111 and \$5,694,428, respectively, paid to Blue Cross and Blue Shield of Vermont for State and Federal mandated insurance fees. In 2017 and 2016, \$95,704 and \$91,889, respectively, was paid to the Department of the Treasury for the annual PCOR Fee. In 2017 and 2016, \$58,017 and \$58,370, respectively, was also paid to Northeast Delta Dental for the State HCCA assessment. These fees are for various State programs as follows:

During fiscal year 2016, the State 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 EDUCATION HEALTH INITIATIVE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 11:
(Cont'd)

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.

Federal Transitional Reinsurance – Beginning January 1, 2014, this is a Federal per member fee paid by Blue Cross and Blue Shield of Vermont and passed through to VEHI. The fee charged by Blue Cross and Blue Shield of Vermont to VEHI was \$2.25 and \$4.46 per month during fiscal year 2017 and 2016, respectively, for each non-Medicare and non-Medicaid member only. The fee ended effective January 1, 2017.

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 sunset in fiscal year 2019. This assessment went into effect with the Patient Protection and Affordable Care Act of 2010. The fee for fiscal year 2017 and 2016 was \$2.26 and \$2.17, 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>2017</u>	<u>2016</u>
HCCA	\$2,408,732	\$2,313,411
Blueprint	2,181,066	1,807,758
Federal Transitional Reinsurance	329,630	1,609,646
PCOR	95,704	91,889
Out of State Assessments	<u>20,790</u>	<u>21,983</u>
Totals	<u>\$5,035,922</u>	<u>\$5,844,687</u>

Note 12: GENERAL AND ADMINISTRATIVE EXPENSES

Most of the Vermont Education Health Initiative’s administrative services are provided by VSBIT and VNEA. For the year ending June 30, 2017 and 2016, VEHI incurred general and administrative expenses of \$1,084,586 and \$1,053,048, respectively, in accordance with an administrative service contract with both VSBIT and VNEA.

The remaining \$855,099 and \$858,863 for the year ending June 30, 2017 and 2016, respectively, was paid directly to vendors by VEHI.

Note 13: 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 through a local broker. 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.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 14: AFFILIATED ORGANIZATIONS

The Vermont School Boards Insurance Trust, Inc. and the Vermont National Education Association (VNEA) jointly manage the Vermont Education Health Initiative (VEHI).

VEHI contracts with VSBIT to provide management, wellness and accounting services. VEHI paid VSBIT \$808,875 and \$777,612 for these services in 2017 and 2016, respectively. Furthermore, the President for VSBIT is also the president for VEHI. 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 two (2) year terms. The contract can be cancelled by either party at the end of the initial term and each additional term.

VEHI contracts with VNEA to provide program and member services. VNEA was paid \$275,711 and \$275,436 for services in 2017 and 2016, respectively. The fee for the 2017 fiscal year was \$275,711 paid quarterly. The fee is subject to adjustment each year.

VERMONT EDUCATION HEALTH INITIATIVE, INC.
CLAIMS DEVELOPMENT INFORMATION
JUNE 30, 2017

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 for the last ten (10) 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 reestimation 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 reestimated 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.

See Disclaimer in the Independent Auditor's Report.

VERMONT EDUCATION HEALTH INITIATIVE, INC.
CLAIMS DEVELOPMENT INFORMATION
JUNE 30, 2017

	<u>2007/08</u>	<u>2008/09</u>	<u>2009/10</u>	<u>2010/11</u>	<u>2011/12</u>	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>
1. Gross Contribution and Investment Revenues	\$ 205,017,767	\$ 212,833,652	\$ 218,361,905	\$ 225,812,610	\$ 235,828,317	\$ 245,024,843	\$ 267,907,885	\$ 276,177,685	\$ 285,553,035	\$ 305,885,229
2. Reinsurance and Capitation Premiums	16,317,050	15,293,409	14,213,997	14,477,657	14,393,643	14,099,987	7,197,659	7,033,506	6,796,007	6,424,168
3. Net Earned Required Contribution and Investment Revenues	188,700,717	197,540,243	204,147,908	211,334,953	221,434,674	230,924,856	260,710,226	269,144,179	278,757,028	299,461,061
4. Unallocated Expenses	13,683,477	16,239,632	17,662,429	18,305,420	20,460,172	19,257,731	20,531,034	22,783,885	22,548,115	21,590,201
5. Estimated Incurred Claim and Expense, End of Policy Year	161,748,892	179,901,386	188,872,285	201,192,844	217,723,716	224,835,668	234,301,608	247,689,300	249,855,083	264,141,456
6. Paid (cumulative) as of:										
End of Policy Year	148,300,779	164,704,900	171,622,903	185,636,051	201,055,904	205,662,095	220,227,806	230,715,254	233,633,608	245,590,504
One Year Later	161,748,892	179,901,386	188,872,285	201,192,884	217,723,716	224,283,092	234,471,434	246,425,798	250,399,022	
7. Reestimated Incurred Claims:										
End of Policy Year	161,748,892	179,901,386	188,872,285	201,192,884	217,723,716	224,835,668	234,301,608	247,689,300	249,855,083	264,141,456
One Year Later	161,748,892	179,901,386	188,872,285	201,192,844	217,723,716	224,283,092	234,471,434	246,425,798	250,399,022	
8. Increase/(Decrease) in Estimated Incurred Claims from End of Policy Year	0	0	0	0	0	(552,576)	169,826	(1,263,502)	543,939	N/A

See Disclaimer in the Independent Auditors Report.

VERMONT EDUCATION HEALTH INITIATIVE, INC.
RECONCILIATION OF CLAIMS LIABILITIES
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

The schedule below presents the changes in health and dental claims liabilities:

	Health		Dental	
	2017	2016	2017	2016
Unpaid Claims and Allocated Claim Adjustment Expenses at Beginning of the Year	\$ 15,897,578	\$ 16,735,046	\$ 323,897	\$ 239,000
Incurred Claims and Claim Adjustment Expenses:				
Provision for Insured Events of the Current Year	258,032,722	243,735,989	6,108,734	6,119,094
Increase/(Decrease) in Provision for Insured Events of Prior Years	<u>535,036</u>	<u>(1,247,189)</u>	<u>8,903</u>	<u>(16,313)</u>
Total Incurred Claims and Claim Adjustment Expenses	<u>258,567,758</u>	<u>242,488,800</u>	<u>6,117,637</u>	<u>6,102,781</u>
Payments:				
Claims and Allocated Claim Adjustment Expenses Attributable to Insured Events of the Current Year	239,827,656	227,838,411	5,762,848	5,795,197
Claims and Allocated Claim Adjustment Expenses Attributable to Insured Events of Prior Years	<u>16,432,614</u>	<u>15,487,857</u>	<u>332,800</u>	<u>222,687</u>
Total Payments	<u>256,260,270</u>	<u>243,326,268</u>	<u>6,095,648</u>	<u>6,017,884</u>
Total Unpaid Claims and Allocated Claim Adjustment Expenses at End of the Year	<u>\$ 18,205,066</u>	<u>\$ 15,897,578</u>	<u>\$ 345,886</u>	<u>\$ 323,897</u>

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