

# **Vermont Education Health Initiative, Inc.**

## **Audited Financial Statements with Required Supplementary Information and Other Information**

*Years ended June 30, 2024 and 2023  
with Report of Independent Auditors*

Vermont Education Health Initiative, Inc.

Audited Financial Statements with Required Supplementary Information  
and Other Information

Years ended June 30, 2024 and 2023

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## 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, 2024 and 2023, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of 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.

### ***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 - 9 and accompanying supplementary schedules listed on pages 22 - 24 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 25 - 26 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 in the center of the page.

Williston, Vermont

September 25, 2024

Vermont firm registration: 092-0000267

# Vermont Education Health Initiative, Inc.

## Management's Discussion and Analysis (Unaudited)

June 30, 2024 and 2023

### **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 a portion of the Vermont State Teacher Retirement System (VSTRS) population. 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 2024 Highlights and Overall Financial Position**

During the year ending June 30, 2024, VEHI partnered with Blue Cross Blue Shield of Vermont and Northeast Delta Dental to provide health insurance to 146 and dental insurance coverage to 108 school districts and related organizations.

VEHI's program contributions totaled \$327,246,530 in 2024 and gained \$4,360,667 in net investment activity. VEHI holds \$2,253,006 in contribution receivable and \$14,691,393 in claims liabilities as of June 30, 2024.

VEHI's overall net position decreased by \$11.3 million in 2024: from \$51.3 to \$40.0 million. The Health Program's net position decreased by \$11.4 million. The Dental Program's net position increased by \$0.1 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 2024, with a comparison to 2023.

	<u>2024</u>	<u>2023</u>
Operating revenues:	\$ 327,472,970	\$ 293,629,713
Operating expenses:		
Net change in health/dental claims paid and reserved	309,239,715	272,392,641
Capitation - health	1,248,471	1,217,966
Reinsurance and administration - health/dental	22,641,139	18,537,239
Assessments	5,335,726	4,974,138
Other expenses	<u>4,664,680</u>	<u>4,235,203</u>
Total operating expenses	<u>343,129,731</u>	<u>301,357,187</u>
Net operating loss	(15,656,761)	(7,727,474)
Non-operating revenues:		
Total investment activity	<u>4,360,667</u>	<u>2,655,710</u>
Change in net position	(11,296,094)	(5,071,764)
Net position at beginning of year	<u>51,345,802</u>	<u>56,417,566</u>
Net position at end of year	<u>\$ 40,049,708</u>	<u>\$ 51,345,802</u>

## Vermont Education Health Initiative, Inc.

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

#### **The Financial Statements (Continued)**

##### *Revenues*

VEHI's fiscal 2024 operations resulted in a decrease in net position of \$11.3 million following the 2023 decrease of \$5.1 million. VEHI raised the health rates between 12.0%-12.7% for 2024 depending on the plan chosen. The majority of the subscribers elect the Gold CDHP plan. The rate increase for this plan was 12.0%. Overall, contribution revenue increased 11.5%. Dental rates for 2024 were increased from 0% - 4% as each member is experience rated. All revenues are considered operating revenues except for investment income. VEHI earned \$327.5 million in operating revenues versus \$343.1 million in total expenses in 2024. All 2024 operating revenues come primarily from program contributions which increased \$33.4 million for health in 2024. Dental contributions increased \$0.3 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 \$1.9 million in interest and dividends in 2024, up from \$1.6 million in 2023. VEHI recorded positive market change of \$2.4 million in 2024, following a positive market change of \$1.1 million in 2023.

##### *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 \$309.2 million in 2024, \$36.8 million more than the 2023 claims expense. Capitation expense increased by \$30,505.

Reinsurance and administrative expenses paid to Blue Cross Blue Shield of Vermont and Northeast Delta Dental make up \$22,641,139 of total expenses in 2024, an increase of \$4,103,900 from 2023.

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 2024 assessments total \$5.34 million; \$5.2 million for the State of Vermont, \$115 thousand for Federal PCOR, and \$23 thousand for out of state assessments. This compares to \$4.97 million for 2023; \$4.8 million for State of Vermont, \$108 thousand for Federal PCOR, and \$23 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 \$4.7 million, an increase of \$429,477 from 2023. VEHI offers the PATH (Planned Action Toward Health) Program to all members. This expense, in the amount of \$2.3 million, makes up the majority of other expenses. PATH expenses increased \$74,705 from 2023. 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 increased from 10,314 participants in 2023 to 10,951 in 2024. Other expenses also include administrative services provided to VEHI by VSBIT and the VT-NEA. For the year ending June 30, 2024, VEHI incurred expenses of \$1.5 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 2024 the Remedy fee increased slightly, from \$385 thousand to \$390 thousand. Depreciation expense was \$45,534. The remaining \$231 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 2024, with a comparison to 2023.

	<u>June 30, 2024</u>	<u>June 30, 2023</u>
Assets		
Cash, cash equivalents and investments	\$ 47,902,224	\$ 54,864,635
Other assets	<u>8,613,688</u>	<u>8,493,282</u>
Total assets	<u>\$ 56,515,912</u>	<u>\$ 63,357,917</u>
Liabilities		
Deferred revenue	\$ 29,820	\$ 732,783
Other payables	<u>16,436,384</u>	<u>11,279,332</u>
Total liabilities	16,466,204	12,012,115
Net position - unrestricted	<u>40,049,708</u>	<u>51,345,802</u>
Total liabilities and net position	<u>\$ 56,515,912</u>	<u>\$ 63,357,917</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 \$8.6 million consists mainly of a working fund deposit in the amount of \$5.4 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 \$2.2 million in contributions receivable as of June 30, 2024; up from \$3.0 million as of June 30, 2023.

#### *Liabilities*

VEHI collected \$29,820 in contribution for fiscal year 2024 prior to June 30, 2024 due to payment timing by our member schools.

Other payables of \$16.4 million consist primarily of claims payable to Blue Cross Blue Shield of Vermont and Northeast Delta Dental in the amount of \$14.6 million. Claims payable as of June 30, 2023 totaled \$9.8 million.

Remaining payables include, \$658 thousand due for state and federal assessments, \$463 thousand in accrued administration fees to process the claims payable, \$669 thousand due to other vendors.

#### **Economic Factors**

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.

For fiscal year 2025, the Department of Financial Regulation approved rate increases ranging from 15.7% to 16.7% for the four plan offerings for active employees. This was an overall increase of 16.4% for active school employees.

VEHI has experienced a series of events over the past two fiscal years that have led to two years of loss in net position. The events include a higher-than-expected increase in utilization by members. Blue Cross speculates this was caused by a delayed post-COVID return to care. VEHI has seen historic increases to hospital budgets which have a direct impact on the total claims spend. VEHI has also seen a leap in prescription drug costs, specifically in Specialty Drug which has an average cost of \$16,283 per patient per year, compared to \$981 per patient per year for all drug categories. VEHI's pharmacy spend in the first quarter of 2024 was 58% of total spend – yet only represents 721 members, which is 2% of the population. This is a 5.8% increase in average specialty drug cost and 15% increase in patients in one year with a total specialty drug cost increase of 21.6%. VEHI is also seeing an increase in the use of GLP-1 prescriptions for weight loss which is reported as \$8,569 per year (as of quarter 1 of 2024) up approximately \$360 from the year prior.

The VEHI board has taken steps to rebuild the reserves including 1.3% for FY24 and 2.6% for FY25.

For fiscal year 2024, dental rates were raised from 0%-4% based on the members incurred claims. For fiscal year 2025, 0%-4% as well.

Vermont Education Health Initiative, Inc.

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

**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, 2024 and 2023

<b>Assets</b>	<u>2024</u>	<u>2023</u>
Cash and cash equivalents	\$ 11,272,848	\$ 13,686,933
Mutual funds, at fair value	36,629,376	41,177,702
Accrued interest receivable	71,210	92,164
Contributions receivable	2,253,006	3,052,627
Working fund deposit	5,360,000	4,730,000
Other receivables	245,525	303,217
Prepaid expenses	258,976	315,274
Property, plant, and equipment - net of accumulated depreciation of \$45,534 and \$0, respectively	<u>424,971</u>	<u>-</u>
Total Assets	<u>\$ 56,515,912</u>	<u>\$ 63,357,917</u>
<b>Liabilities and Net Position</b>		
<b>Liabilities</b>		
Accounts payable	\$ 1,087,463	\$ 702,164
Assessments payable	657,528	756,535
Advance premiums	29,820	732,783
Claims payable	7,737,812	6,329,039
Claims to be paid	6,908,967	3,476,941
Reserve for unallocated loss adjustment expenses	<u>44,614</u>	<u>14,653</u>
Total liabilities	16,466,204	12,012,115
<b>Net Position</b>		
Unrestricted net position	<u>40,049,708</u>	<u>51,345,802</u>
Total net position	<u>40,049,708</u>	<u>51,345,802</u>
Total Liabilities and Net Position	<u>\$ 56,515,912</u>	<u>\$ 63,357,917</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, 2024 and 2023

	<u>2024</u>	<u>2023</u>
<b>Operating Revenues</b>		
Health contributions	\$ 318,836,796	\$ 285,432,254
Dental contributions	8,409,734	8,077,535
Grant revenue	<u>226,440</u>	<u>119,924</u>
Total operating revenues	327,472,970	293,629,713
<b>Operating Expenses</b>		
Net change in claims paid and reserved	309,239,715	272,392,641
Reinsurance - Health	4,431,754	3,827,657
Capitation - Health	1,248,471	1,217,966
Assessments	5,335,726	4,974,138
Program administration	18,209,385	14,709,582
General and administrative expenses	2,155,642	1,907,387
Wellness grants and expenses	<u>2,509,038</u>	<u>2,327,816</u>
Total operating expenses	<u>343,129,731</u>	<u>301,357,187</u>
Net operating loss	(15,656,761)	(7,727,474)
<b>Non-Operating Revenues (Expenses)</b>		
Investment income	4,384,219	2,682,628
Investment fees	<u>(23,552)</u>	<u>(26,918)</u>
Net non-operating revenues	<u>4,360,667</u>	<u>2,655,710</u>
Change in net position	(11,296,094)	(5,071,764)
Net position, beginning of year	<u>51,345,802</u>	<u>56,417,566</u>
Net position, end of year	<u>\$ 40,049,708</u>	<u>\$ 51,345,802</u>

See accompanying notes to the financial statements.

Vermont Education Health Initiative, Inc.

Statements of Cash Flows

Years ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
<b>Cash Flows from Operating Activities</b>		
Cash received from health and dental contributions	\$ 327,343,188	\$ 291,262,891
Cash paid for health and dental claims	(304,368,955)	(269,699,676)
Cash paid for reinsurance, capitation and administration	(23,889,610)	(19,755,205)
Cash paid for assessments	(5,434,733)	(4,758,805)
Cash paid for general and administrative expenses	(1,610,819)	(2,277,944)
Cash paid for wellness grants and expenses	<u>(2,282,598)</u>	<u>(2,207,892)</u>
Net cash flows from operating activities	(10,243,527)	(7,436,631)
<b>Cash Flows from Investing Activities</b>		
Net change in investments	8,000,000	-
Change in working fund deposit	(572,308)	640,000
Cash received from interest and dividends	895,807	805,741
Cash paid for investment fees	<u>(23,552)</u>	<u>(26,918)</u>
Net cash flows from investing activities	<u>8,299,947</u>	<u>1,418,823</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Purchase of property, plant, and equipment	<u>(470,505)</u>	-
Net cash flows from capital and related financing activities	<u>(470,505)</u>	-
Net change in cash and cash equivalents	(2,414,085)	(6,017,808)
Cash and Cash Equivalents, Beginning of Year	<u>13,686,933</u>	<u>19,704,741</u>
Cash and Cash Equivalents, End of Year	<u>\$ 11,272,848</u>	<u>\$ 13,686,933</u>
<b>Reconciliation of Net Operating Loss to Net Cash Flows From Operating Activities</b>		
Net operating loss	\$ (15,656,761)	\$ (7,727,474)
Add (deduct) items not affecting cash:		
Depreciation expense	45,534	-
Changes in operating assets and liabilities:		
Contributions receivable	799,621	(1,807,023)
Other receivables	57,692	67,864
Prepaid expenses	56,298	(193,400)
Accounts payable	385,299	(245,021)
Assessments payable	(99,007)	215,333
Unearned premium	(702,963)	(439,875)
Claims payable/claims to be paid	4,840,799	2,691,567
Reserve for unallocated loss adjustment expenses	<u>29,961</u>	<u>1,398</u>
Net cash from operating activities	<u>\$ (10,243,527)</u>	<u>\$ (7,436,631)</u>

See accompanying notes to the financial statements.

# Vermont Education Health Initiative, Inc.

## Notes to the Financial Statements

Years ended June 30, 2024 and 2023

### **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. VEHI currently provides health coverage to 146 and 144 schools and related organizations and dental coverage to 108 and 103 schools and related organizations as of June 30, 2024 and 2023, respectively.

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.

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.

*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 25, 2024, 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 investment income on the statements of revenues, expenses, and changes in net position.

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, 2024 and 2023 is \$0. VEHI has not experienced any significant write offs during 2024 or 2023.

*Working Fund Deposit*

The Working Fund Deposit consists of a non-interest bearing cash account in the amount of \$5,360,000 and \$4,730,000 at June 30, 2024 and 2023, 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, 2024 and 2023, 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 \$258,976 and \$315,274 as of June 30, 2024 and 2023, 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 \$29,820 and \$732,783 as of June 30, 2024 and 2023, respectively, represents health and dental insurance contributions received in advance for fiscal year 2025 and 2024, 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.

*Property, Plant, and Equipment*

Property, plant and equipment is capitalized when purchased. It is the Trust's policy to capitalize all property, plant and equipment with a cost of \$10,000 or more. A reserve from net position is established for the book value of the property, plant and equipment net of related debt. Straight-line depreciation is being taken over lives as follows:

Land	N/A
Building and building components	10 to 75 Years
Infrastructure	10 Years
Furniture and equipment	3 to 10 Years
Information systems	7 Years

The following is a summary of changes in property, plant and equipment during the fiscal years.

	2024					
	Balance			Balance	Accumulated	Net Property
	July 1	Additions	Disposals	June 30	Depreciation	Plant and
					June 30	Equipment
						June 30
Information Systems	\$ -	\$ 470,505	\$ -	\$ 470,505	\$ 45,534	\$ 424,971
Total	\$ -	\$ 470,505	\$ -	\$ 470,505	\$ 45,534	\$ 424,971

There was no property, plant, and equipment as of June 30, 2023.

**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.

Vermont Education Health Initiative, Inc.

Notes to the Financial Statements (Continued)

**Note C - Affiliated Organizations and Related Party Transactions (Continued)**

VEHI contracts with VSBIT to provide management, wellness and accounting services. VEHI paid VSBIT \$1,292,817 and \$1,133,396 for these services in 2024 and 2023, respectively. 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 \$220,736 and \$225,177 for services in 2024 and 2023, 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.

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, 2024 and 2023 consist of the following:

	<u>June 30, 2024</u>	<u>June 30, 2023</u>
Checking account	\$ 793,685	\$ 793,720
Dreyfus Government Cash Management Institutional Fund	<u>10,479,163</u>	<u>12,893,213</u>
Total cash and cash equivalents	<u>\$ 11,272,848</u>	<u>\$ 13,686,933</u>

The custodial credit risk for cash deposits is as follows:

	<u>June 30, 2024</u>		<u>June 30, 2023</u>	
	Book Balance	Bank Balance	Book Balance	Bank Balance
Insured/(FDIC)	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000
Uninsured, uncollateralized	<u>11,022,848</u>	<u>11,035,477</u>	<u>13,436,933</u>	<u>13,490,163</u>
Total	<u>\$ 11,272,848</u>	<u>\$ 11,285,477</u>	<u>\$ 13,686,933</u>	<u>\$ 13,740,163</u>

Vermont Education Health Initiative, Inc.

Notes to the Financial Statements (Continued)

**Note D - Cash and Investments (Continued)**

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.

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 have maturities greater than one year.

*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, 2024 and 2023.

Vermont Education Health Initiative, Inc.

Notes to the Financial Statements (Continued)

**Note D - Cash and Investments (Continued)**

*Fair Value*

VEHI has the following recurring fair value measurements as of June 30, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Quoted market prices (Level 1 inputs):		
Mutual funds, at fair value	<u>\$ 36,629,376</u>	<u>\$ 41,177,702</u>
Investments, at fair value	<u>\$ 36,629,376</u>	<u>\$ 41,177,702</u>

**Note E - Claims Payable**

The claims payable of \$7,737,812 as of June 30, 2024 represents \$7,545,925 of health claims and \$191,887 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, 2024 but not reimbursed by VEHI as of that date.

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.

**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 \$6,908,967 as of June 30, 2024 represents \$6,623,967 of health claims and \$285,000 of dental claims incurred as of June 30, 2024 but not paid by Blue Cross and Blue Shield of Vermont and Northeast Delta Dental as of that date.

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.

Vermont Education Health Initiative, Inc.

Notes to the Financial Statements (Continued)

**Note F - Claims To Be Paid (Continued)**

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>2024</u>	<u>2023</u>
Liability at beginning of year, net of reinsurance and deductibles	\$ 9,805,980	\$ 7,114,412
Provision for losses:		
Provision for insured events of the current year	309,351,382	272,030,485
Change in provision for insured events of prior years	<u>(111,667)</u>	<u>362,156</u>
Total provision for losses during the year	309,239,715	272,392,641
Payments:		
Claims and claims adjustment expenses attributable to insured events of the current year	(294,704,603)	(260,684,985)
Claims and claims adjustment expenses attributable to insured events of prior years	<u>(9,694,313)</u>	<u>(9,016,088)</u>
Total payments during the year	<u>(304,398,916)</u>	<u>(269,701,073)</u>
Liability at end of year, net of reinsurance and deductibles	<u>\$ 14,646,779</u>	<u>\$ 9,805,980</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.

**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.

Vermont Education Health Initiative, Inc.

Notes to the Financial Statements (Continued)

**Note H - Assessments (Continued)**

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 2024 and 2023 was \$3.22 and \$3.00, 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>2024</u>	<u>2023</u>
HCCA	\$ 2,833,465	\$ 2,757,813
Blueprint	2,363,716	2,084,783
PCOR	115,060	108,406
Out of State Assessments	<u>23,485</u>	<u>23,136</u>
Totals	<u>\$ 5,335,726</u>	<u>\$ 4,974,138</u>

**Note I - Net Position**

For the years ended June 30, 2024 and 2023, VEHI has a reserve of net position which represents an operating surplus of \$40,049,708 and \$51,345,802, 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.

**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, 2024

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, 2024

	Fiscal and Coverage Year Ended (in thousands of dollars)									
	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
(1) Gross contributions and investment income	\$ 331,630,750	\$ 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
(2) Less: Reinsurance and capitation expenses	5,680,224	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
(3) Net earned premiums and investment income	325,950,526	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
(4) Unallocated expenses	28,006,906	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
(5) Estimated losses and allocated expenses incurred, net at the end of year:	309,351,382	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
(6) Net paid (cumulative) as of:										
End of coverage year	294,704,603	260,684,985	255,473,234	255,099,752	218,775,443	218,145,123	237,867,034	245,590,504	233,633,608	230,715,254
One year later		270,379,298	262,949,801	269,800,570	233,685,160	236,916,942	247,244,932	262,827,882	250,399,022	246,425,798
Nine years later										-
(7) Reestimated net incurred losses and allocated expenses										
End of coverage year	309,351,382	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
One year later		271,918,818	262,949,801	269,800,570	233,685,160	236,916,942	247,244,932	262,827,882	250,339,022	246,425,798
Two years later			262,949,801	269,800,570	233,685,160	236,916,942	247,244,932	262,827,882	250,339,022	246,425,798
Three years later				269,800,570	233,685,160	236,916,942	247,244,932	262,827,882	250,339,022	246,425,798
Four years later					233,685,160	236,916,942	247,244,932	262,827,882	250,339,022	246,425,798
Five years later						236,916,942	247,244,932	262,827,882	250,339,022	246,425,798
Six years later							247,244,932	262,827,882	250,339,022	246,425,798
Seven years later								262,827,882	250,339,022	246,425,798
Eight years later									250,339,022	246,425,798
Nine years later										246,425,798
(8) Increase (decrease) in estimated net incurred losses and allocated expenses from end of coverage year	<u>\$ -</u>	<u>\$ 362,155</u>	<u>\$ (2,177,580)</u>	<u>\$ (2,170,829)</u>	<u>\$ 7,376,628</u>	<u>\$ (1,838,532)</u>	<u>\$ (1,313,574)</u>	<u>\$ 543,939</u>	<u>\$ (1,263,502)</u>	

Vermont Education Health Initiative, Inc.

Reconciliation of Claim Liabilities by Type of Contract (Unaudited)

Years ended June 30, 2024 and 2023

	Health		Dental		Total	
	2024	2023	2024	2023	2024	2023
Reserve for claims at beginning of year, net of reinsurance	\$ 9,377,028	\$ 6,565,324	\$ 428,952	\$ 549,088	\$ 9,805,980	\$ 7,114,412
Losses and LAE incurred relating to:						
Current year	301,616,491	264,468,541	7,734,891	7,561,944	309,351,382	272,030,485
Prior years	<u>(82,336)</u>	<u>407,941</u>	<u>(29,331)</u>	<u>(45,785)</u>	<u>(111,667)</u>	<u>362,156</u>
Total losses and LAE incurred	<u>301,534,155</u>	<u>264,876,482</u>	<u>7,705,560</u>	<u>7,516,159</u>	<u>309,239,715</u>	<u>272,392,641</u>
Losses and LAE paid relating to:						
Current year	287,446,599	253,551,993	7,258,004	7,132,992	294,704,603	260,684,985
Prior years	<u>9,294,692</u>	<u>8,512,785</u>	<u>399,621</u>	<u>503,303</u>	<u>9,694,313</u>	<u>9,016,088</u>
Total losses and LAE paid	<u>296,741,291</u>	<u>262,064,778</u>	<u>7,657,625</u>	<u>7,636,295</u>	<u>304,398,916</u>	<u>269,701,073</u>
Reserve for claims at end of year, net of reinsurance	<u>\$ 14,169,892</u>	<u>\$ 9,377,028</u>	<u>\$ 476,887</u>	<u>\$ 428,952</u>	<u>\$ 14,646,779</u>	<u>\$ 9,805,980</u>

Vermont Education Health Initiative, Inc.

Combining Statement of Net Position (Unaudited)

June 30, 2024

	<u>Health</u>	<u>Dental</u>	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 10,479,163	\$ 793,685	\$ 11,272,848
Mutual funds, at fair value	29,995,211	6,634,165	36,629,376
Accrued interest receivable	66,196	5,014	71,210
Contributions receivable	2,157,728	95,278	2,253,006
Working fund deposit	5,360,000	-	5,360,000
Other receivables	245,525	-	245,525
Prepaid expenses	250,145	8,831	258,976
Fixed assets, net of accumulated depreciation of \$45,534 and \$0, respectively	<u>424,971</u>	<u>-</u>	<u>424,971</u>
Total Assets	<u>\$ 48,978,939</u>	<u>\$ 7,536,973</u>	<u>\$ 56,515,912</u>
<b>Liabilities and Net Position</b>			
<b>Liabilities</b>			
Accounts payable	\$ 917,044	\$ 170,419	\$ 1,087,463
Assessments payable	581,715	75,813	657,528
Advance premiums	28,871	949	29,820
Claims payable	7,545,925	191,887	7,737,812
Claims to be paid	6,623,967	285,000	6,908,967
Reserve for unallocated loss adjustment expenses	<u>44,614</u>	<u>-</u>	<u>44,614</u>
Total Liabilities	15,742,136	724,068	16,466,204
<b>Net Position</b>			
Unrestricted	<u>33,236,803</u>	<u>6,812,905</u>	<u>40,049,708</u>
Total Net Position	<u>33,236,803</u>	<u>6,812,905</u>	<u>40,049,708</u>
Total Liabilities and Net Position	<u>\$ 48,978,939</u>	<u>\$ 7,536,973</u>	<u>\$ 56,515,912</u>

Vermont Education Health Initiative, Inc.

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

Year ended June 30, 2024

	<u>Health</u>	<u>Dental</u>	<u>Total</u>
<b>Operating Revenues</b>			
Program contributions	\$ 318,836,796	\$ 8,409,734	\$ 327,246,530
Grant revenue	<u>226,440</u>	<u>-</u>	<u>226,440</u>
Total operating revenues	319,063,236	8,409,734	327,472,970
<b>Operating Expenses</b>			
Net change in claims paid and reserved	301,534,155	7,705,560	309,239,715
Reinsurance	4,431,754	-	4,431,754
Capitation	1,248,471	-	1,248,471
Assessments	5,262,463	73,263	5,335,726
Program administration	17,612,451	596,934	18,209,385
General and administrative expenses	1,734,175	421,467	2,155,642
Wellness grants and expenses	<u>2,389,094</u>	<u>119,944</u>	<u>2,509,038</u>
Total operating expenses	<u>334,212,563</u>	<u>8,917,168</u>	<u>343,129,731</u>
Net operating loss	(15,149,327)	(507,434)	(15,656,761)
<b>Non-operating Revenues (Expenses)</b>			
Investment income	3,770,754	613,465	4,384,219
Investment fees	<u>(23,016)</u>	<u>(536)</u>	<u>(23,552)</u>
Net non-operating revenues	<u>3,747,738</u>	<u>612,929</u>	<u>4,360,667</u>
Change in net position	(11,401,589)	105,495	(11,296,094)
Net position, beginning of year	<u>44,638,392</u>	<u>6,707,410</u>	<u>51,345,802</u>
Net position, end of year	<u>\$ 33,236,803</u>	<u>\$ 6,812,905</u>	<u>\$ 40,049,708</u>