

VERMONT EDUCATION HEALTH INITIATIVE, INC.

AUDIT REPORT

JUNE 30, 2018 AND 2017

VERMONT EDUCATION HEALTH INITIATIVE, INC.
AUDIT REPORT
TABLE OF CONTENTS
JUNE 30, 2018 AND 2017

		<u>Page #</u>
Independent Auditor's Report		1-2
Management's Discussion and Analysis		3-7
Statement of Net Position	Exhibit A	8
Statement of Revenue, Expenses and Changes in Net Position	Exhibit B	9
Statement of Cash Flows	Exhibit C	10
Notes to the Financial Statements		11-21
Claims Development Information	Table 1	22-23
Reconciliation of Claims Liabilities	Table 2	24

Sullivan, Powers & Co., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

77 Barre Street
P.O. Box 947
Montpelier, VT 05601
802/223-2352
www.sullivanpowers.com

Fred Duplessis, CPA
Richard J. Brigham, CPA
Chad A. Hewitt, CPA
Wendy C. Gilwee, CPA
VT Lic. #92-000180

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, 2018 and 2017 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

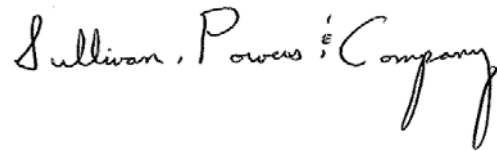
In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the Vermont Education Health Initiative, Inc. as of June 30, 2018 and 2017 and the results of its operations and its cash flows for the years then ended in accordance with 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 21, 2018
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 long, sweeping tail on the word "Company".

VERMONT EDUCATION HEALTH INITIATIVE

MANAGEMENT'S DISCUSSION AND ANALYSIS

For The Year Ended June 30, 2018

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 2018 Highlights and Overall Financial Position

During the year ending June 30, 2018, VEHI, partnered with Blue Cross Blue Shield of Vermont and Northeast Delta Dental to provide health insurance to 237 and dental insurance coverage to 167 schools and related organizations. As a result of many district mergers, VEHI's member count is decreasing, however, the actual population covered by VEHI plans has not changed.

VEHI's program contributions totaled \$267,070,505 in 2018, a decrease of \$38.5 million from 2017. This is due to the implementation of lower priced health plans for active employees effective January 1, 2018. VEHI holds \$1.8 million in contribution receivable and \$2.5 million in prepaid contributions as of June 30, 2018. VEHI earned \$437,725 in investment income in 2018, an increase of \$165,962 from 2017.

VEHI's overall net position decreased by \$7.2 million in 2018: from \$54.6 to \$47.4 million. The Health Program's net position decreased by \$6.8 million. The Dental Program's net position decreased by \$375 thousand. This follows a \$13.2 million increase in overall net position in 2017.

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>2018</u>	<u>2017</u>
Operating Revenues:	\$ <u>267,070,505</u>	\$ <u>306,378,049</u>
Operating Expenses:		
Net Change in Health/Dental Claims Paid and Reserved	247,769,887	264,685,395
Capitation-Health	2,643,835	3,347,764
Reinsurance & Administration-Health/Dental	15,847,966	16,507,148
Assessments	4,558,030	5,035,922
Other Expenses	<u>3,868,935</u>	<u>3,849,305</u>
Total Operating Expenses	<u>274,688,653</u>	<u>293,425,534</u>
Operating Income/(Loss)	<u>(7,618,148)</u>	<u>12,952,515</u>
Non-operating Revenue		
Total Investment Activity	<u>395,703</u>	<u>232,950</u>
Change in Net Position	(7,222,445)	13,185,465
Net Position - Beginning of Year	<u>54,640,966</u>	<u>41,455,501</u>
Net Position - End of Year	\$ <u>47,418,521</u>	\$ <u>54,640,966</u>

Revenues

VEHI's fiscal 2018 operations resulted in a decrease in net position of \$7.2 million, following the 2017 increase of \$13.2 million. For July-December of FY18, VEHI did not adjust its health rates. This followed a 7.9% increase for fiscal year 2017. The plans offered to active employees were replaced with all new plan designs effective January 1, 2018. All revenues for 2018 are considered operating revenues except for investment income. VEHI earned \$267.1 million in revenues versus \$274.7 million in total expenses in 2018. All FY18 operating revenues come primarily from program contributions which decreased \$38.6 million for health in 2018 due to the changes in plan design for active employees. Dental contributions increased \$64 thousand while overall the dental rates were reduced by .4% 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 \$874 thousand in interest and dividends in 2018, up from \$685 thousand in 2017. Bond market performance continued to decline in 2018. VEHI recorded a negative market change of \$436 thousand following a loss of \$413 thousand in 2017.

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 \$247.8 million in 2018, \$16.9 million under the 2017 claims expense. Capitation expense decreased by \$704 thousand, from \$3.34 million to \$2.64 million.

Reinsurance and administrative expenses paid to Blue Cross Blue Shield of Vermont and Northeast Delta Dental make up \$15.8 million of total expenses in 2018, a \$659 thousand decrease from 2017. 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, both the State and Federal governments began assessing health and dental plans in order to pay for initiatives in health care reform. For FY18, assessments total \$4.6 million; \$4.4 million for State of Vermont, \$101 thousand for Federal PCOR, and \$19 thousand for out of state assessments. This compares to \$5 million for FY17; \$4.5 million for State of Vermont, \$330 for Federal Transitional Reinsurance which expired during FY17, \$96 thousand for Federal PCOR, and \$21 thousand for out of state assessments.

VEHI incurred other expenses in the amount of \$3.87 million, a modest increase of \$20 thousand from 2017. 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 resulting from the Remedy relationship for FY16 to FY18 totals \$19.4 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, 2018 VEHI incurred expenses of \$1.1 million in accordance with administrative services contracts with these entities. The remaining \$366 thousand of other expenses was paid directly to vendors by VEHI.

CONDENSED FINANCIAL INFORMATION

SUMMARY OF NET POSITION

	<u>2018</u>	<u>2017</u>
Assets:		
Cash and investments	\$55,411,218	\$70,002,189
Other Assets	<u>7,033,719</u>	<u>6,621,665</u>
Total Assets	<u>\$62,444,937</u>	<u>\$76,623,854</u>
Liabilities:		
Deferred Revenue	\$ 2,499,601	\$ 2,243,760
Other Payables	<u>12,526,815</u>	<u>19,739,128</u>
Total Liabilities	<u>15,026,416</u>	<u>21,982,888</u>
Net Position:		
Unrestricted Net Position	<u>47,418,521</u>	<u>54,640,966</u>
Total Net Position	<u>47,418,521</u>	<u>54,640,966</u>
Total Liabilities and Net Position	<u>\$62,444,937</u>	<u>\$76,623,854</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 \$7 million consists mainly of a working fund deposit in the amount of \$5.2 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 \$1.8 million in contribution receivable as of June 30.

Liabilities

VEHI collected \$2.5 million in contribution for fiscal year 2019 prior to June 30, 2018 due to payment timing by our member schools. This is up slightly from \$2.2 million as of June 30, 2017.

Other payables of \$12.5 million consist primarily of claims payable to Blue Cross Blue Shield of Vermont and Northeast Delta Dental in the amount of \$11.2 million. Also included; \$725 thousand due for state and federal assessments, \$4,603 in accrued administration fees to process the claims payable, and \$581 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. On January 1, 2018 VEHI discontinued its existing selection of health plans for active employees. Four new plans were offered to VEHI's active employee membership, with lower premiums and higher out of pocket exposure. VSTRS plan offering continue unchanged.

For fiscal year 2019, the Department of Financial Regulation approved rate increases ranging from 6.4% to 17.2% for the four new plan offerings for active employees effective January 1, 2018. This was an overall increase of 10.2%. VSTRS received an overall decrease of .9% with a range of -3.7% to 8%.

Dental insurance contributions were decreased by 2.2% on average for fiscal year 2019, following a .4% decrease for fiscal year 2018.

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, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
Current Assets:		
Cash - Note 2	\$ 1,121,286	\$ 914,472
Investments - Note 2	54,289,932	69,087,717
Accrued Interest Receivable	0	72,405
Contributions Receivable	1,807,667	1,131,556
Working Fund Deposit - Note 3	5,182,080	5,309,382
Other Receivables - Note 4	4,550	65,420
Prepaid Expenses - Note 5	<u>39,422</u>	<u>42,902</u>
Total Current Assets	<u>62,444,937</u>	<u>76,623,854</u>
TOTAL ASSETS	<u>\$ 62,444,937</u>	<u>\$ 76,623,854</u>
 <u>LIABILITIES AND NET POSITION</u>		
Current Liabilities:		
Accounts Payable	\$ 581,034	\$ 431,582
Assessments Payable	724,748	729,494
Other Liabilities - Wellness Funds	0	20,000
Unearned Revenue - Note 6	2,499,601	2,243,760
Claims Payable - Note 7	11,216,430	18,550,951
Reserve for Unallocated Loss Adjustment Expenses	<u>4,603</u>	<u>7,101</u>
Total Current Liabilities	<u>15,026,416</u>	<u>21,982,888</u>
Total Liabilities	<u>15,026,416</u>	<u>21,982,888</u>
Net Position:		
Unrestricted Net Position	<u>47,418,521</u>	<u>54,640,966</u>
Total Net Position - Note 8	<u>47,418,521</u>	<u>54,640,966</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 62,444,937</u>	<u>\$ 76,623,854</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, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Operating Revenues:		
Health Contributions	\$ 259,873,402	\$ 298,480,550
Dental Contributions	7,197,103	7,132,916
Value Payment Revenue - Note 9	0	763,083
Administrative Performance Revenue - Note 9	<u>0</u>	<u>1,500</u>
Total Operating Revenues	<u>267,070,505</u>	<u>306,378,049</u>
Operating Expenses:		
Net Change in Health Claims Paid and Reserved - Note 10	241,238,489	258,567,758
Net Change in Dental Claims Paid and Reserved - Note 10	6,531,398	6,117,637
Reinsurance and Administration - Health	15,290,746	15,956,005
Capitation - Health	2,643,835	3,347,764
Assessments - Note 11	4,558,030	5,035,922
Program Administration - Dental	557,220	551,143
General and Administrative Expenses - Note 12	1,979,112	1,939,685
Wellness Grants and Expenses	<u>1,889,823</u>	<u>1,909,620</u>
Total Operating Expenses	<u>274,688,653</u>	<u>293,425,534</u>
Operating Income/(Loss)	<u>(7,618,148)</u>	<u>12,952,515</u>
Nonoperating Revenues/(Expenses):		
Investment Income	437,725	271,763
Investment Fees	<u>(42,022)</u>	<u>(38,813)</u>
Total Nonoperating Revenues/(Expenses)	<u>395,703</u>	<u>232,950</u>
Change in Net Position	(7,222,445)	13,185,465
Net Position - Beginning of Year	<u>54,640,966</u>	<u>41,455,501</u>
Net Position - End of Year	<u>\$ 47,418,521</u>	<u>\$ 54,640,966</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, 2018 AND 2017

	2018	2017
Cash Flows from Operating Activities:		
Cash Received from Health and Dental Contributions	\$ 266,650,235	\$ 306,931,882
Cash Received from Value Payment Revenue	60,870	764,714
Cash Received from Administrative Performance Revenue	0	1,500
Cash Paid for Health and Dental Claims	(255,104,408)	(262,355,919)
Cash Paid for Reinsurance, Capitation and Administration	(18,494,299)	(19,853,686)
Cash Paid for Assessments	(4,562,776)	(4,975,627)
Cash Paid for General and Administrative Expenses	(1,826,180)	(1,895,379)
Cash Paid for Wellness Grants and Expenses	(1,909,823)	(1,882,928)
	(15,186,381)	16,734,557
Cash Flows from Noncapital Related Financing Activities:	0	0
Cash Flows from Capital and Related Financing Activities:	0	0
Cash Flows from Investing Activities:		
Net Increase in Long-Term Investments	14,797,785	(16,220,536)
Increase in Working Fund Deposit	127,302	(324,273)
Cash Received from Interest and Dividends	510,130	285,081
Cash Paid for Investment Fees	(42,022)	(38,813)
	15,393,195	(16,298,541)
Net Increase in Cash and Cash Equivalents	206,814	436,016
Cash and Cash Equivalents, Beginning of Year	914,472	478,456
Cash and Cash Equivalents, End of Year	\$ 1,121,286	\$ 914,472
Reconciliation of Operating Income/(Loss) to Net Cash Provided/(Used) by Operating Activities		
Operating Income/(Loss)	\$ (7,618,148)	\$ 12,952,515
Changes in Operating Assets and Liabilities:		
Decrease/(Increase) in Contributions Receivable	(676,111)	1,268,444
Decrease/(Increase) in Other Receivables	60,870	1,631
Decrease/(Increase) in Prepaid Expenses	3,480	(20,522)
Increase/(Decrease) in Accounts Payable	149,452	71,520
Increase/(Decrease) in Assessments Payable	(4,746)	60,295
Increase/(Decrease) in Other Liabilities - Wellness Funds	(20,000)	20,000
Increase/(Decrease) in Unearned Revenue	255,841	49,972
Increase/(Decrease) in Claims Payable	(7,334,521)	2,329,476
Increase/(Decrease) in Reserve for Unallocated Loss		
Adjustment Expenses	(2,498)	1,226
	(15,186,381)	16,734,557
Net Cash Provided/(Used) by Operating Activities	\$ (15,186,381)	\$ 16,734,557

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

VERMONT EDUCATION HEALTH INITIATIVE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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 237 schools and related organizations and dental coverage to 167 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, 2018

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, 2018 and 2017 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, 2018

Note 2: CASH AND INVESTMENTS

Cash and Investments as of June 30, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Cash - Deposits with Financial Institutions	\$ <u>1,121,286</u>	\$ <u>914,472</u>
Investments:		
Investments - Mutual Funds *	54,289,932	61,932,377
Investments - Corporate Bonds	<u>0</u>	<u>7,155,340</u>
Total Investments	<u>54,289,932</u>	<u>69,087,717</u>
Total Cash and Investments	<u>\$55,411,218</u>	<u>\$70,002,189</u>

At June 30, 2018, VEHI's operating account had a book balance of \$1,121,286 and a bank balance of \$1,120,334. At June 30, 2017, the book balance was \$914,472 and bank balance was \$945,706.

- * At June 30, 2018, \$33,050,541 was invested in the Dreyfus Government Cash Management Institutional Fund and \$21,239,391 was invested in the Vanguard Short-Term Bond Index Fund which includes bonds by various issuers.
- * At June 30, 2017, \$40,647,622 was invested in the Dreyfus Government Cash Management Institutional Fund and \$21,284,755 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 be invested in near cash equivalents having a maturity of five (5) years or less at the time of purchase, money market mutual funds and/or equity investments that mirror, to the extent possible, the performance of the entire market.

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, 2018

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 bonds are not exposed to custodial credit risk.

The custodial credit risk for cash deposits is as follows:

	<u>2018</u>		<u>2017</u>	
	<u>Book</u> <u>Balance</u>	<u>Bank</u> <u>Balance</u>	<u>Book</u> <u>Balance</u>	<u>Bank</u> <u>Balance</u>
Insured/(FDIC)	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000
Uninsured, Uncollateralized	<u>871,286</u>	<u>870,334</u>	<u>664,472</u>	<u>695,706</u>
Total	<u>\$ 1,121,286</u>	<u>\$ 1,120,334</u>	<u>\$ 914,472</u>	<u>\$ 945,706</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, 2018

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 bonds are shown at their actual maturity.

2018			
Investment Type	Remaining Maturity		Total
	One Year Or Less	1 to 2 Years	
Mutual Funds	\$ 54,289,932	\$ 0	\$ 54,289,932
Total	\$ 54,289,932	\$ 0	\$ 54,289,932

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

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, 2018 and 2017. The ratings displayed are those of Standard and Poors.

VERMONT EDUCATION HEALTH INITIATIVE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 2:
(Cont'd)

June 30, 2018			
	<u>Mutual Funds</u>	<u>Total</u>	<u>Percent of Total</u>
Not rated	\$ 54,289,932	\$ 54,289,932	100%
	<u>\$ 54,289,932</u>	<u>\$ 54,289,932</u>	<u>100%</u>

June 30, 2017				
	<u>Corporate Bonds</u>	<u>Mutual Funds</u>	<u>Total</u>	<u>Percent of Total</u>
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	<u>0</u>	<u>61,932,377</u>	<u>61,932,377</u>	<u>89%</u>
	<u>\$ 7,155,340</u>	<u>\$ 61,932,377</u>	<u>\$ 69,087,717</u>	<u>100%</u>

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, 2018 and June 30, 2017 respectively.

Fair Value

VEHI has the following recurring fair value measurements as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Quoted Market Prices (Level 1 Inputs):		
Corporate Bonds	\$ 0	\$ 7,155,340
Mutual Funds	<u>54,289,932</u>	<u>61,932,377</u>
Investment at Fair Value	<u>\$ 54,289,932</u>	<u>\$ 69,087,717</u>

VERMONT EDUCATION HEALTH INITIATIVE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 3: WORKING FUND DEPOSIT

The Working Fund Deposit consists of a non-interest bearing cash account in the amount of \$5,182,080 and \$5,309,382 at June 30, 2018 and 2017, 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, 2018 consists of \$4,550 due from participants in the June Institute Program.

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

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 \$2,499,601 as of June 30, 2018 represents \$2,433,069 of health insurance contributions and \$66,532 of dental insurance contributions received in advance for fiscal year 2019.

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.

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, 2018

Note 7:
(Cont'd)

The claims payable of \$11,216,430 as of June 30, 2018 represents \$2,486,507 of health claims and \$148,320 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, 2018 but not reimbursed by VEHI as of that date and it also includes \$8,392,603 of health claims and \$189,000 of dental claims incurred as of June 30, 2018 but not paid by Blue Cross and Blue Shield of Vermont and Northeast Delta Dental as of that date.

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.

Note 8: NET POSITION

For the year ended June 30, 2018, VEHI has a reserve of net position which represents an operating surplus of \$47,418,521. 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, 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.

Note 9: VALUE PAYMENT REVENUE/ADMINISTRATIVE PERFORMANCE REVENUE

The Value Payment Revenue of \$763,083 for 2017 represents 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.

The contract with Blue Cross and Blue Shield of Vermont did not provide for the value payment revenue in the year ending June 30, 2018, as the credit is now incorporated into the administrative fee.

The Administrative Performance Revenue of \$-0- and \$1,500 for 2018 and 2017, respectively, represents penalties per an agreement between Blue Cross and Blue Shield of Vermont and VEHI. Blue Cross and Blue Shield of Vermont is subject to penalties for failure to provide high levels of services as described in the agreement.

VERMONT EDUCATION HEALTH INITIATIVE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 10: CLAIMS PAID AND PAYABLE

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

	<u>2018</u>	<u>2017</u>
Health Claims Paid (Net of Recoveries)	\$248,564,445	\$256,260,270
Payable - End of Year	10,879,110	18,205,066
Less: Payable - Beginning of Year	<u>(18,205,066)</u>	<u>(15,897,578)</u>
Net Change in Health Claims Paid and Reserved	<u>\$241,238,489</u>	<u>\$258,567,758</u>
	<u>2018</u>	<u>2017</u>
Dental Claims Paid (Net of Recoveries)	\$ 6,539,964	\$ 6,095,648
Payable - End of Year	337,320	345,886
Less Payable - Beginning of Year	<u>(345,886)</u>	<u>(323,897)</u>
Net Change in Dental Claims Paid and Reserved	<u>\$ 6,531,398</u>	<u>\$ 6,117,637</u>

Note 11: ASSESSMENTS

For the year ending June 30, 2018 and 2017, assessments included \$4,394,748 and \$4,882,111, respectively, paid to Blue Cross and Blue Shield of Vermont for State and Federal mandated insurance fees. In 2018 and 2017, \$100,968 and \$95,704, respectively, was paid to the Department of the Treasury for the annual PCOR Fee. In 2018 and 2017, \$62,313 and \$58,017, 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, 2018

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 per month during fiscal year 2017, 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 2018 and 2017 was \$2.39 and \$2.26, 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>2018</u>	<u>2017</u>
HCCA	\$2,201,173	\$2,408,732
Blueprint	2,237,009	2,181,066
Federal Transitional Reinsurance	0	329,630
PCOR	100,968	95,704
Out of State Assessments	<u>18,880</u>	<u>20,790</u>
Totals	<u>\$4,558,030</u>	<u>\$5,035,922</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, 2018 and 2017, VEHI incurred general and administrative expenses of \$1,112,793 and \$1,084,586, respectively, in accordance with an administrative service contract with both VSBIT and VNEA.

The remaining \$866,319 and \$855,099 for the year ending June 30, 2018 and 2017, 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. 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, 2018

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 \$921,793 and \$808,875 for these services in 2018 and 2017, 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 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 VNEA to provide program and member services. VNEA was paid \$191,000 and \$275,711 for services in 2018 and 2017, respectively. The fee is subject to adjustment each year.

VERMONT EDUCATION HEALTH INITIATIVE, INC.
CLAIMS DEVELOPMENT INFORMATION
JUNE 30, 2018

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, 2018

	<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>	<u>2017/18</u>
1. Gross Contribution and Investment Revenues	\$ 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	\$ 267,508,230
2. Reinsurance and Capitation Premiums	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	5,190,399
3. Net Earned Required Contribution and Investment Revenues	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	262,317,831
4. Unallocated Expenses	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	21,770,389
5. Estimated Incurred Claim and Expense, End of Policy Year	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	249,083,464
6. Paid (cumulative) as of:										
End of Policy Year	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	237,867,034
One Year Later	179,901,386	188,872,285	201,192,884	217,723,716	224,283,092	234,471,434	246,425,798	250,399,022	262,827,882	
7. Reestimated Incurred Claims:										
End of Policy Year	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	249,083,464
One Year Later	179,901,386	188,872,285	201,192,844	217,723,716	224,283,092	234,471,434	246,425,798	250,399,022	262,827,882	
8. Increase/(Decrease) in Estimated Incurred Claims from End of Policy Year	0	0	0	0	(552,576)	169,826	(1,263,502)	543,939	(1,313,574)	N/A

See Disclaimer in the Independent Auditors Report.

VERMONT EDUCATION HEALTH INITIATIVE, INC.
RECONCILIATION OF CLAIMS LIABILITIES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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

	<u>Health</u>		<u>Dental</u>		<u>Totals</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Unpaid Claims and Allocated Claim Adjustment Expenses at Beginning of the Year	\$ 18,205,066	\$ 15,897,578	\$ 345,886	\$ 323,897	\$ 18,550,952	\$ 16,221,475
Incurred Claims and Claim Adjustment Expenses:						
Provision for Insured Events of the Current Year	242,538,783	258,032,722	6,544,681	6,108,734	249,083,464	264,141,456
Increase/(Decrease) in Provision for Insured Events of Prior Years	<u>(1,300,294)</u>	<u>535,036</u>	<u>(13,283)</u>	<u>8,903</u>	<u>(1,313,577)</u>	<u>543,939</u>
Total Incurred Claims and Claim Adjustment Expenses	<u>241,238,489</u>	<u>258,567,758</u>	<u>6,531,398</u>	<u>6,117,637</u>	<u>247,769,887</u>	<u>264,685,395</u>
Payments:						
Claims and Allocated Claim Adjustment Expenses Attributable to Insured Events of the Current Year	231,659,673	239,827,656	6,207,361	5,762,848	237,867,034	245,590,504
Claims and Allocated Claim Adjustment Expenses Attributable to Insured Events of Prior Years	<u>16,904,772</u>	<u>16,432,614</u>	<u>332,603</u>	<u>332,800</u>	<u>17,237,375</u>	<u>16,765,414</u>
Total Payments	<u>248,564,445</u>	<u>256,260,270</u>	<u>6,539,964</u>	<u>6,095,648</u>	<u>255,104,409</u>	<u>262,355,918</u>
Total Unpaid Claims and Allocated Claim Adjustment Expenses at End of the Year	<u>\$ 10,879,110</u>	<u>\$ 18,205,066</u>	<u>\$ 337,320</u>	<u>\$ 345,886</u>	<u>\$ 11,216,430</u>	<u>\$ 18,550,952</u>

See Disclaimer in the Independent Auditors Report.