

Report on the Examination

As of June 30, 2011

of

Vermont School Boards Insurance Trust, Inc.

by the

Vermont Department of Financial Regulation

Division of Insurance



State of Vermont
assistance
Department of Financial Regulation
89 Main Street
Montpelier, VT 05620-3101
www.dfr.vermont.gov

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October 30, 2012

Robert Giroux
Chair of the Board
79 River Street, Suite 301
Montpelier, VT 05602

Dear Mr. Robert Giroux:

ORDER OF ADOPTION

Pursuant to and in accordance with the provisions of Title 8, Chapter 101, Section 3563 and 3566 of the Vermont Statutes Annotated, and other applicable laws, I, do hereby adopt the Report on the Examination of Vermont School Board Insurance Trust, Inc., for the year ending June 30, 2011.



Stephen Kimbell, Commissioner

11/1/12
Date



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VERMONT SCHOOL BOARDS INSURANCE TRUST, INC.

EXAMINATION REPORT

AS OF JUNE 30, 2011

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September 20, 2012

Stephen W. Kimbell, Commissioner
Department of Financial Regulation
89 Main Street
Montpelier, VT 05620-3101

Dear Commissioner Kimbell:

Pursuant to the February 10, 2012 examination order, the Insurance Division's financial examination team has conducted an examination of:

Vermont School Board Insurance Trust, Inc.

with their offices located at
79 River Street, 3rd Floor, Suite 301
Montpelier, Vermont 05602

The examination was performed pursuant to 8 V.S.A. §3563 and Regulation I-90-1, in order to ascertain the Company's financial condition, ability to fulfill its obligations and compliance with the provisions of Vermont law.



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SCOPE OF EXAMINATION

Vermont School Boards Insurance Trust, Inc. (VSBIT) or the (Company), last financial condition examination was as of June 30, 2006 for the previous five year period. The financial condition examination was conducted by the Insurance Division of the Vermont Department of Financial Regulation (the Department).

The financial condition examination was conducted pursuant to 8 V.S.A. §3563 and Regulation I-90-1, and guidance provided by the National Association of Insurance Commissioners (NAIC). The examination covered the period from July 1, 2006 through June 30, 2011. The examiners conducted the examination in accordance with NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that the examiners plan and perform the examination to evaluate the financial condition and identify prospective risks of the company by obtaining information about the company, including corporate governance, identifying and assessing inherent risks within the company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with accounting principles and state regulations. The examination team also included a review of any material transactions and/or events occurring subsequent to the examination date that were noted during the course of this examination. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

As required by law and the NAIC standard examination procedures, the Company instructed their independent accounting firm, Sullivan Powers & Co., to make available for the departments review all workpapers concerning procedures followed, tests performed, information obtained and conclusions reached pertinent to the audit of the Company's financial statements for the period covered by the examination. The examination team reviewed the workpapers of Sullivan Powers & Co., to identify additional solvency risk areas and to determine the extent of work performed on high-risk areas, which may have provided insight and efficiencies for the current

examination. To the extent possible, the examination team utilized the workpapers and analyses to supplement the examination work.

The format of this report is designed to explain the procedures employed on the examination and the text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible personnel and/or officials during the course of the examination.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings in the prior exam report or the current exam report. There were no material adjustments made to the financial statements in this report based on this examination.

SUBSEQUENT EVENTS

Laura Soares, the Chair of the Board is the President Elect as of July 1, 2011. She resigned her position on the board effective June 19, 2012.

On August 28, 2011 Vermont experienced the effects of Hurricane Irene. This massive storm caused significant damage throughout Vermont. The Company's multi-line program provides property coverage to approximately 2/3rd of the Supervisory Unions around the state. While certain schools did incur significant damage, the overall financial impact to the program is limited. The reinsurance contract considers all losses associated with this type of storm to be of one occurrence. The Company's retained liability is \$250,000 per occurrence. The program will incur some additional cost for items not covered by the reinsurance contract, which was estimated at \$600,000 to \$850,000.

HISTORY

The Vermont School Boards Insurance Trust, Inc. was formed in 1978. They provide insurance and management services for Vermont School Districts. VSBIT is owned by member school districts and is under the supervision of a Board of Directors consisting of a School Board Member, one Superintendent, one School Business Official, and two Directors at Large, elected by the Trust's members at its annual meeting.

VSBIT operates an unemployment compensation program for school districts which protects members from unexpected unemployment benefit expense. Effective July 1, 2004, VSBIT's Multi-line Intermunicipal Insurance Program (Multi-Line Program) began operations. This new program, formed by member districts as an alternative to commercial insurance, provides property, workers' compensation, and various forms of liability coverage. VSBIT's educational and risk management services are provided through its School Management Resource Center (SMRC). These services focus on human resource and physical plant management issues.

Health, dental and long term disability insurance and related health promotion programs are offered through the Vermont Education Health Initiative, Inc. (VEHI). VEHI which was formed on July 1, 1996 is jointly management by VSBIT and Vermont National Education Association (Vermont NEA).

VSBIT also facilitates the administration of claims on a workers compensation program offered from 1992-1998, which is now in run-off.

Lines of Business/Operations:

Unemployment Compensation Program – Protects its members from unexpected unemployment benefit expenses. This was the initial and singular program of VSBIT in 1978 with 61 districts participating. The program has since grown to 204 members and offers rates from .10% to 1.83%, with a special high-risk class for those districts whose claims exceed their contribution by \$1,000 during the rating period. The Vermont Department of Labor pays the actual claims filed against members of VSBIT and then bills VSBIT for reimbursement. VSBIT's program

contributions totaled \$8.9 million as of June 30, 2011 and \$1.1 million was from unemployment contributions. Reserves held for this program total \$1.3 million and are down from \$1.62 million in FY 10. This is due to continued increased claims expense in 2011. As a result of economic downturn, the unemployment rates were increased in 2011 as claims expense increased by approximately 68% in 2010. No rate increase will take affect for 2012 despite another 20% increase in claims expense in 2011. The results, while significant, are in line with state and national trends. In 2011, two new entities joined the program and in 2012 five new members have joined. Unemployment claims are administered by TALX Employer Services, which is based in Columbus, OH.

Multi-Line Intermunicipal School Program – began on July 1, 2004 and provides it members with property, boiler and machinery, crime, general liability, auto liability, school board legal liability, workers compensation and catastrophic student accident coverage. The program began with 25 member supervisory unions and was designed to provide school districts with a stable, cost effective alternative to traditional insurance. The program has grown to 39 participating supervisory unions as of June 30, 2011. VSBIT's program contributions totaled \$8.9 million as of June 30, 2011 and \$7.8 million was from the multi-line program. Overall, VSBIT's net assets increased \$4.4 million from \$26.1 million in 2010 to \$30.5 million in 2011. The Multi-line net assets held for this program totaled \$12.7 million which has increased from \$9.87 million in 2010. The Multi-line program uses Arthur J. Gallagher of Itasca, IL as its broker and consultant. The Multi-line claims are administered by Alternative Service Concepts (ASC), a Nashville, TN company. The program is protected by varying levels of reinsurance. The main reinsurance providers are as follows: CNA Insurance Company provides coverage over property and auto physical damage losses, Safety National Insurance Company provides coverage over workers compensation losses, and General Reinsurance Company provides excess coverage over all of the liability lines.

VEHI – Offers health, dental and long-term disability insurance (which includes life) programs to school districts which is managed by VSBIT and the Vermont NEA. VEHI was incorporated on July 1, 1996 under the Nonprofit Act and all revenue is exempt from Federal and State income taxes under the Internal Revenue Code Section 115. VEHI partners with Blue Cross

Blue Shield of Vermont and Northeast Delta Dental to provide health insurance to 403 schools and related organizations and dental insurance coverage to 219 schools and related organizations. The long-term disability plans are offered through a partnership with UnumProvident Corporation.

Workers Compensation (1992 – 1998) – This is a self-funded program that ceased operations in June 1998. On July 1, 2004, workers compensation was offered as part of the multi-line program. As of June 30, 2011, VSBIT remains the administrator for any and all outstanding claims made on this line of business. As of June 30, 2011, the reserves totaled \$727 thousand down slightly from \$746 thousand in 2010.

CORPORATE RECORDS

The Company's articles of incorporation, by-laws and minutes of the Board meetings held during the period under examination were reviewed. Based upon our review, the Company is conducting its affairs in accordance with its own charter and by-laws. The recorded minutes of these meetings adequately documented approval of the Company's investment transactions, other material transactions, events and changes in directors.

MANAGEMENT AND CONTROL

Board of Directors

In accordance with Article IV of the Company's by-laws, the Board will be composed of five (5) directors. Members of the Company are entitled to vote for the election of directors.

The following Directors were elected to the Board of the Company in accordance with the by-laws and serving as of June 30, 2011:

<u>Name</u>	<u>City of Residence</u>	<u>Principal Business Affiliation</u>
Laura Soares, Chair	Randolph Center, VT	Vice-Chair of the Orange Southwest Supervisory Union
Steve Hier	Weathersfield, VT	Springfield School District Business Manager

<u>Name</u>	<u>City of Residence</u>	<u>Principal Business Affiliation</u>
Robert Giroux, Vice Chair	Cambridge, VT	Executive Director of the Vermont Municipal Bond Bank
John Everitt	Middlebury, VT	South Burlington School District Superintendent of Schools
Steve Post	Montpelier, VT	Chief Executive Officer of VSECU

Management Team

The Management Team as of June 30, 2011 is as follows:

<u>Title</u>	<u>Name</u>
President & CEO	John Gutman
Trust Administrator	Joseph Zimmerman
Manager Multi-line Program	Don Morrill
Assistant Manager Multi-line Program	Tim Vincent
Accountant & Unemployment Program Manager	Chris Roberts
Physical Plant Consultant	Tim Pedrotty

Conflict of Interest Policy

The Company has developed a policy titled Standards of Professional Conduct. The purpose of the policy is to set forth basic principles and guidelines to direct employees in the proper conduct of the business and personal affairs as representatives of the Company. The standards are expected to be followed by all board members and employees. The board members and employees sign an annual Conflict of Interest Disclosure Statement.

Affiliated Companies

The Company and the Vermont National Education Association jointly manage the Vermont Education Health Initiative (VEHI). VEHI partners with insurance companies to provide health, dental, life and disability insurance to Vermont schools. VEHI contracts with the Company to provide management, wellness and accounting services. VEHI paid the Company \$541,395 for

these services in 2011. The Company's President/CEO and Trust Administrator also serve on the VEHI's Board of Directors.

FIDELITY BOND AND OTHER INSURANCE

The Company is covered under the terms of a fidelity bond that is part of their Comprehensive Dishonesty Disappearance and Destruction Policy. The amount of coverage in force at June 30, 2011 exceeds the minimum amount of coverage recommended by the NAIC. All other insurance coverage's, such as commercial property, general liability, crime coverage, workers' compensation, etc., appear to be maintained at sufficient levels.

PENSIONS AND INSURANCE PLANS

The Company provides its employees a defined contribution pension plan under Internal Revenue Code Section 401(a). In a defined contribution plan, benefits depend solely on amounts contributed plus investment earnings. The Plan is administered by the Company. Employees are eligible after reaching the age of 21 and completing one year of service. Employees are 20 percent vested after 2 years of service and the vested portion increases 20 percent each year until fully vested after 6 years of service.

The Company contributed 8.5 percent of employees gross salaries for 7 full time employees to the 401(a) plan. The Company has modified its 401(a) retirement plan to allow for additional contributions by the Company for the Trust Administrator and the President, who were unable to fully participate in a pension plan from the start of their employment with the Company. The Company contributed 33.50 percent and 38.40 percent of gross salary for the Trust Administrator and the President, respectively, for 2011.

The Company also has a 403(b) plan which allows for employees contributions if they elect to contribute. TIAA-CREF is the custodian of the Plan assets.

TERRITORY AND PLAN OF OPERATIONS

The Company serves Vermont school districts by providing cost effective insurance and risk management programs as well as offering educational and professional development opportunities to district employees and administrators. The insurance programs offered includes multi-line program that provides members with coverage for property damage, workers compensation and various forms of liability.

GROWTH OF COMPANY

The growth of the Company over the five most recent years is shown in the following table:

<i>(amounts in 000's)</i>	2011	2010	2009	2008	2007
Program Contributions	\$8,869	\$8,246	\$7,958	\$7,544	\$7,187
Assets	36,839	32,727	30,305	31,303	31,590
Liabilities	6,310	6,622	6,838	6,151	4,911
Net Assets	30,529	26,104	23,467	25,151	26,679

LOSS EXPERIENCE

A summary of the Company's loss experience is illustrated below:

<i>(amounts in 000's)</i>	2011	2010	2009	2008	2007
Claims (including reinsurance)	\$6,387	\$6,109	\$6,137	\$7,211	\$4,198
Loss Ratio	65.4%	66.2%	70.0%	93.2%	44.9%
General and Administrative Exp.	2,116	2,068	1,987	1,991	1,821
Admin Ratio	22.4%	23.5%	23.5%	24.5%	23.6%
Combined Ratio	90.0%	92.9%	96.3%	113.5%	78.1%
SAPOR (Surplus as a Percentage of Revenue)	323%	297%	278%	311%	346%

REINSURANCE

Management performs an analysis of the Company's exposure and has obtained a combination of specific and aggregate reinsurance coverages.

Worker's Compensation (92-98):

The Company has specific and aggregate reinsurance coverage. Any occurrence resulting in losses greater than \$250,000 are reinsured over \$250,000 up to policy limits (Statutory A; \$1,000,000 Coverage B).

Aggregate protects the Company for an unusually large number of claims. This covers claims on occurrence of \$250,000 or less in excess of the aggregate retention limit of \$5,000,000.

Multi-Line Intermunicipal School Program:

The Company has specific and aggregate reinsurance coverage. For property loss greater than \$250,000 the Company is reinsured over \$250,000 up to policy limits. For Fund year 2006, any occurrence resulting in a worker's compensation loss greater than \$400,000 is reinsured over \$400,000 up to policy limits. Beginning in fund year 2007, any occurrence resulting in a worker's compensation loss greater than \$500,000 is reinsured over \$500,000 up to policy limits.

Aggregate reinsurance protects the Company in the event of an unusually large number of claims. Currently, only property losses (on occurrence of \$250,000 or less) in excess of the aggregate retention are reinsured up to the aggregate coverage limit of \$250,000,000. The aggregate retention for fund year 2007 through 2011 ranged from \$849,585 to \$909,606, which was calculated based on 100% of the group's collective normal property premium.

ACCOUNTS AND RECORDS

The Company prepares financial statements in accordance with accounting principles generally accepted in the United States (GAAP). The operations of the Company are recorded utilizing a

general ledger system, however it is not automated. Entries for investment activity, claims, etc. are recorded in the general ledger by journal entry. The claims processing and administration is outsourced. The Company monitors the outsourced operations by obtaining a Type II SAS 70 reports regarding controls. In addition, the claims processing employees work at the Company's offices. The Company's information technology environment is not complex and a review by a specialist was not considered necessary.

The Company is not subject to requirements of either Sarbanes-Oxley Section 404, or the internal control attestation requirements expressed in Regulation 1-2009-06, section 16 because the Company is a non-profit corporation under the Vermont Nonprofit Corporation Act. The Company's income is tax-exempt under the Internal Revenue Code Section 501(c)(3).

FINANCIAL STATEMENTS

The following statements show the financial position of the Company as of June 30, 2011 in accordance with generally accepted accounting principles (GAAP).

Statements of Net Assets

As of June 30, 2011

Assets

Cash	\$ 2,485,818
Investments	33,740,586
Accounts Receivable	18,970
Contributions Receivable	29,349
Deductible Receivable	26,343
Subrogation Receivable	222,328
Prepaid Expenses	18,658
Working Fund Deposit	5,000
Property, Plant and Equipment, Net of Accumulated Depreciation of \$139,184	291,660
Total assets	<u>\$ 36,838,712</u>

Liabilities and Net Assets:

Accounts Payable	\$ 42,018
Accrued Payroll	4,011
Accrued Vacation Payable	32,578
Other Payables	5,051
Accrued Severance Pay	49,423
Claims Payable	171,397
Workers Compensation State Assessment Reserve	60,713
Claims to be Paid	1,796,834
Anticipated Claims Not Reported	3,831,000
Reserve for Unallocated Loss Adjustment Expenses	317,000
Total Liabilities	<u>\$ 6,310,025</u>

Net Assets:

Net Investment in Property, Plant and Equipment	\$ 291,660
Unrestricted Net Assets	<u>30,237,027</u>
Total Net Assets	<u>\$ 30,528,687</u>
 Total Liabilities and Net Assets	 <u>\$ 36,838,712</u>

Statement of Revenue, Expenses and Changes in Net Assets

As of June 30, 2011

Operating Revenue:	
Program Contributions	\$ 8,869,204
Other Income	44,950
VEHI Administrative Contract	541,395
Total Operating Revenues	<u>\$ 9,455,549</u>
Operating Expenses:	
Net Change in Claims Paid and Reserved – Unemployment Insurance	\$ 1,684,014
Net Change in Claims Paid and Reserved – Worker’s Compensation	3,423
Net Change in Claims Paid and Reserved – Multi-line Program	3,088,074
Reinsurance Premiums	1,611,141
Administration	407,744
Other Program Expenses	412,506
General and Administrative Expenses	1,137,532
School Management Resource Center Expenses	158,705
Total Operating Expenses	<u>\$ 8,503,139</u>
Net Operating Income	<u>\$ 952,410</u>
Nonoperating Revenue/(Expenses):	
Investment Income – Interest and Dividends	\$ 719,334
Investment Income – Other	2,753,450
Investment/Bank Fees	(607)
Total nonoperating Revenues (Expenses)	<u>\$ 3,472,177</u>
Net Income/Change in Net Assets	<u>\$ 4,424,587</u>
Net Assets – Beginning of the Year	26,104,100
Net Assets – End of the Year	<u><u>\$ 30,528,687</u></u>

COMMENTS ON RECOMMENDATIONS

There are no significant findings or financial adjustments as a result of this examination. A comment letter was issued to the Board of Directors as a result of this exam addressing opportunities for improvement and other items that did not reach a level of significance to warrant inclusion in this report.

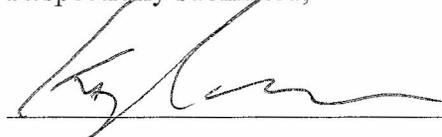
CONCLUSION

As a result of this examination, the financial condition of the company, as of June 30, 2011 was determined to be as follows:

Assets	<u>\$36,838,712</u>
Liabilities	\$ 6,310,025
Net Assets	<u>\$30,528,687</u>
Total Liabilities and Net Assets	<u>\$36,838,712</u>

In addition to the undersigned, Karen Murphy, Administrative Insurance Examiner, and Jesse Lussier, Examiner-In-Charge, participated in this examination.

Respectfully submitted,



Kaj Samsom, CFE
Chief Examiner, Insurance Division
Vermont Department of Financial Regulation

STATE OF VERMONT
COUNTY OF WASHINGTON

Kaj Samsom, being duly sworn, deposes and says that the foregoing report submitted by him is true to the best of his knowledge and belief.

Subscribed and sworn to before me

This 22 day of October, 2012

