

VIRGINIA BANKERS ASSOCIATION GROUP MEDICAL AND DENTAL TRUST

Financial Statements

December 31, 2022 and 2021

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VIRGINIA BANKERS ASSOCIATION GROUP MEDICAL AND DENTAL TRUST

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INDEPENDENT AUDITOR'S REPORT

To the Virginia Bankers Association Audit Committee of the Board of Directors
Virginia Bankers Association Group Medical and Dental Trust

Opinion

We have audited the accompanying financial statements of Virginia Bankers Association Group Medical and Dental Trust (the "Trust"), which comprise the statements of net assets as of December 31, 2022 and 2021, and the related statements of changes in net assets for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of Virginia Bankers Association Group Medical and Dental Trust as of December 31, 2022 and 2021, and the changes in its net assets for the years then ended in accordance with accounting principles generally accepted in the United States.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 Virginia Bankers Association Group Medical and Dental Trust and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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, 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 Trust's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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 generally accepted auditing standards 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, including omissions, 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 generally accepted auditing standards, 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 Virginia Banker Association Group Medical and Dental Trust'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 Virginia Banker Association Group Medical and Dental Trust'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.

Other Matter – Form of Financial Statements

The accompanying financial statements are those of Virginia Bankers Association Group Medical and Dental Trust, which are established under the Virginia Bankers Association Group Medical and Dental Trust and its health plans; the statements do not purport to present the financial status of the Plans. The statements do not contain certain information on benefit obligations and other disclosures necessary for a fair presentation of the financial status of the Plans in conformity with accounting principles generally accepted in the United States. Furthermore, these statements do not purport to satisfy the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 relating to the financial statements of employee benefit plans.

Keiter

June 8, 2023
Glen Allen, Virginia

VIRGINIA BANKERS ASSOCIATION GROUP MEDICAL AND DENTAL TRUST

Statements of Net Assets
December 31, 2022 and 2021

<u>Assets</u>	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 19,052,355	\$ 25,002,652
Certificates of deposit (over three months original maturity)	2,065,821	\$ 2,899,680
Investments	1,083,757	-
Interest receivable	166,376	138,929
Amounts receivable from minimum premium members premium members:		
Health claims incurred not yet paid	1,573,837	726,836
Estimated health claims incurred but not reported	4,680,760	4,821,318
Other receivables	<u>53,595</u>	<u>28,093</u>
Total assets	<u>\$ 28,676,501</u>	<u>\$ 33,617,508</u>
 <u>Liabilities and Shareholders' Equity</u>		
Liabilities:		
Estimated health claims incurred but not reported	\$ 6,845,020	\$ 6,730,901
Claims payable and accrued expenses	<u>4,376,010</u>	<u>6,282,095</u>
Total liabilities	11,221,030	13,012,996
Net assets	<u>17,455,471</u>	<u>20,604,512</u>
Total liabilities and net assets	<u>\$ 28,676,501</u>	<u>\$ 33,617,508</u>

See accompanying notes to financial statements.

VIRGINIA BANKERS ASSOCIATION GROUP MEDICAL AND DENTAL TRUST

Statements of Changes in Net Assets
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Additions to net assets attributed to amounts from members:		
Medical	\$ 74,036,659	\$ 74,706,405
Dental	<u>4,663,092</u>	<u>5,122,256</u>
Total amounts from members	78,699,751	79,828,661
Investment return, net of fees	<u>311,058</u>	<u>35,609</u>
Total additions	<u>79,010,809</u>	<u>79,864,270</u>
Deductions from net assets attributed to amounts paid to insurance companies		
Medical	77,868,559	74,833,264
Dental	<u>4,036,614</u>	<u>4,465,338</u>
Total amounts paid to insurance companies	81,905,173	79,298,602
Change in provision for estimated health claims incurred but not reported, net	<u>254,677</u>	<u>(591,579)</u>
Total deductions	<u>82,159,850</u>	<u>78,707,023</u>
Change in net assets	(3,149,041)	1,157,247
Net assets, beginning of year	<u>20,604,512</u>	<u>19,447,265</u>
Net assets, end of year	<u>\$ 17,455,471</u>	<u>\$ 20,604,512</u>

See accompanying notes to financial statements.

VIRGINIA BANKERS ASSOCIATION GROUP MEDICAL AND DENTAL TRUST

Notes to Financial Statements

1. Organization and Nature of Activities:

The Virginia Bankers Association Benefits Corporation (“Benefits Corporation”), a Virginia corporation, is a wholly-owned subsidiary of the Virginia Bankers Association (“VBA”), the trade association for the banking industry in Virginia. Benefits Corporation offers VBA employer members a program of group employee health benefits that VBA employer members may offer to their eligible employees and their dependents (the “Program”). The Program includes a variety of group medical and dental benefit plans (collectively, the “Plans”) which are self-funded with contributions from the VBA members that participate.

The Benefits Corporation maintains the VBA Group Medical and Dental Trust (the “Trust”) as a voluntary employees’ beneficiary association under Section 501(c)(9) of the Internal Revenue Code of the United States for the purpose of holding and utilizing contributed assets for the exclusive benefit of employees (and their eligible dependents and beneficiaries) of VBA members that participate in the Plans. Benefits Corporation is the plan sponsor and plan administrator of the Plans. Benefits Corporation is the trust sponsor of the Trust, and Truist Bank is the trustee of the Trust. The Trust is a multiple employer welfare arrangement (“MEWA”) subject to federal MEWA laws and regulations, but it is exempt from Virginia MEWA laws and regulations.

Each year, the Benefits Corporation and the Trust execute a participation agreement (“Participation Agreement”) with each VBA employer member (a “Member”) that elects to participate in the Plans. The Participation Agreements set forth the rights, obligations, and liabilities of the parties with respect to the Plans and the assets in the Trust, including among other things, the payment of premiums, claims, fees, and expenses. Most Plans require Members to make monthly payments based on rates that are fixed for the year and do not vary based on the Member’s claims experience. Certain Members with a larger number of employees have elected to participate in a minimum premium arrangement health Plan (the “Minimum Premium Plan”) where Members pay monthly based on rates that are fixed for the year, but that are adjusted based on the Member’s actual claims experience. See Note 5 for more information about the Participation Agreements and Member payments to the Trust.

The Benefits Corporation and the Trust have entered into an administrative services only contract with a dental claims administrator to process claims under the dental Plan. The Benefits Corporation and the Trust have entered into an administrative services only contract with an insurance company to process claims under the medical Plan, and procured an excess loss insurance policy with the same insurance company for excess medical and pharmacy Plan claims. See Note 6 for more information about the insurance policies, administrative services only contracts and excess loss insurance policies.

VIRGINIA BANKERS ASSOCIATION GROUP MEDICAL AND DENTAL TRUST

Notes to Financial Statements, Continued

1. Organization and Nature of Activities, Continued:

The Benefits Corporation and the Trust have an administrative services only contract with a pharmacy benefit administrator and pharmacy benefit manager to process prescription drug claims. The prescription drug claims are covered and combined with the medical claims under the excess loss insurance policy.

2. Summary of Significant Accounting Policies:

Basis of Accounting: The financial statements of the Trust are maintained on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States.

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

Cash and Cash Equivalents: The Trust considers its money market accounts and certificates of deposit with an original maturity of three months or less to be cash and cash equivalents.

Investments: Investments include mutual funds and exchange-traded funds. These investments are measured at fair value based on the most recent trade price with gains and losses included in the accompanying Statements of Changes in Net Assets.

Credit Risk: Financial instruments that potentially subject the Trust to concentration of credit risk consist of cash and cash equivalents and certificates of deposit. Cash and cash equivalents and certificates of deposit are held with high credit quality financial institutions whose credit ratings are monitored by management to minimize credit risk. Periodically the Trust may have cash and cash equivalents that exceed the amount insured by the Federal Deposit Insurance Corporation.

Estimated Health Claims Incurred but not Reported: The liability for Estimated health claims incurred but not reported on the Statements of Net Assets includes management's estimates of the Trust's expected liabilities under the health plan, pharmacy plan, and the dental plan for claims incurred prior to December 31, 2022 and 2021, but not reported until after those dates. Due to the nature of such estimates, it is reasonably possible that actual costs may differ from those estimates.

VIRGINIA BANKERS ASSOCIATION GROUP MEDICAL AND DENTAL TRUST

Notes to Financial Statements, Continued

2. Summary of Significant Accounting Policies, Continued:

Income Taxes: As evidenced by a tax determination letter dated June 25, 1990, the Trust has received a favorable determination letter from the Internal Revenue Service specifying that the Trust is a voluntary employees' beneficiary association and is a qualified trust under Section 501(c)(9) of the Internal Revenue Code and, accordingly, is generally exempt from taxation under the provisions of Section 501(a) and the tax statutes of the Commonwealth of Virginia to the extent the assets in the Trust exceed statutory limits, the Trust may be subject to tax on its unrelated business income. Accordingly, the accompanying financial statements do not reflect a provision or liability for federal and state income taxes. Management has determined that the Trust does not have any material unrecognized tax benefits or obligations as of December 31, 2022 or 2021.

Amounts Receivable from Minimum Premium Members and Allowance for Doubtful Accounts: Amounts receivable from minimum premium members – Health claims incurred not yet paid on the Statements of Net Assets result when the Minimum Premium Plan Member's fixed monthly payments for the year are less than the annual actual claims. In instances where a Minimum Premium Plan Member has paid more than the actual claims during the year, a liability is included in Claims payable and accrued expenses. Amounts receivable from minimum premium members – Estimated health claims incurred but not reported represents management's estimate of medical claims incurred by Minimum Premium Plan Members prior to December 31 of each year, that were not reported until after that date. Amounts receivable from minimum premium members are carried at their estimated realizable value, net of an allowance for doubtful accounts. The allowance is based on management's estimate of the amount of such amounts receivable that will actually be collected. At December 31, 2022 and 2021, no allowance for doubtful accounts was deemed necessary.

Revenue Recognition: The Trust follows FASB guidance Accounting Standards update ("ASU") No. 2014-09, *Revenue Recognition from Contracts with Customers (Topic 606)*. Topic 606 affects any entity that enters into contracts with customers to transfer goods, services, or nonfinancial assets. The standard's core principle is that an entity should recognize revenue when it transfers promised goods or services and transfers of nonfinancial assets to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services.

The Trust recognizes revenue when earned. For all Plans other than the Minimum Premium Plan, revenue is earned and recognized when payments are received from Members. For the Minimum Premium Plan, Member payments are fixed during the year with an annual settlement of the actual claims incurred. Accordingly, Minimum Premium Plan revenue includes Minimum Premium Plan Members' health claims incurred but not yet reported or paid. See Note 5 for more information about Member payments to the Trust.

VIRGINIA BANKERS ASSOCIATION GROUP MEDICAL AND DENTAL TRUST

Notes to Financial Statements, Continued

2. Summary of Significant Accounting Policies, Continued:

Subsequent Events: The Trust has evaluated subsequent events through June 8, 2023, the date the financial statements were available to be issued, and has determined that there are no subsequent events to be reported in the accompanying financial statements.

3. Investments:

Investment return, net on the Statements of Changes in Net Assets was comprised of the following for the years ended December 31:

	<u>2022</u>	<u>2021</u>
Interest income	\$ 364,854	\$ 67,446
Realized gain on investment	2,918	-
Unrealized loss on investment	(29,744)	-
Administrative fees	<u>(26,970)</u>	<u>(31,837)</u>
Investment return, net of fees	<u>\$ 311,058</u>	<u>\$ 35,609</u>

4. Fair Value Measurements:

FASB has issued guidance for measurement and disclosure of fair value and establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Trust has the ability to access.
- Level 2 Inputs to the valuation methodology are quoted prices for similar instruments in active and inactive markets; and model driven valuations with significant inputs and drivers derived from observable active markets.
- Level 3 Inputs to the valuation methodology are unobservable for the instrument and significant to the fair value measurement.

Valuation techniques used should maximize the use of observable inputs and minimize the use of unobservable inputs. The fair values of equity investments (mutual funds and exchange-traded funds) that are readily marketable are determined by obtaining quoted prices on nationally recognized securities exchanges.

VIRGINIA BANKERS ASSOCIATION GROUP MEDICAL AND DENTAL TRUST

Notes to Financial Statements, Continued

4. Fair Value Measurements, Continued:

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2022 and 2021.

Certificates of deposit: Valued at face value, plus accrued interest as reported by the issuing institutions.

Mutual funds: Valued at the closing price reported on the active market on which the individual securities are traded.

Exchange-traded funds: Valued at the last reported sales price reported on the active market on which the individual securities are traded.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Trust believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Trust's investments at fair value as of December 31, 2022:

	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ -	\$ 2,065,821	\$ -	\$ 2,065,821
Mutual funds:				
Commodities	48,845	-	-	48,845
Mid cap	85,011	-	-	85,011
International	164,421	-	-	164,421
Small cap	83,648	-	-	83,648
Financial	56,854	-	-	56,854
Other	48,963	-	-	48,963
Subtotal mutual funds	487,742	-	-	487,742
Exchange-traded funds:				
Large blend	393,520	-	-	393,520
International	149,667	-	-	149,667
Financial	52,828	-	-	52,828
Subtotal exchange-traded funds	596,015	-	-	596,015
Total investments at fair value	<u>\$ 1,083,757</u>	<u>\$ 2,065,821</u>	<u>\$ -</u>	<u>\$ 3,149,578</u>

VIRGINIA BANKERS ASSOCIATION GROUP MEDICAL AND DENTAL TRUST

Notes to Financial Statements, Continued

4. Fair Value Measurements, Continued:

The Trust's investments at fair value as of December 31, 2021 included certificates of deposit totaling \$2,899,680. The certificates of deposit were valued as Level 2 investments as of December 31, 2021.

There were no transfers in or out of Level 3 investments for the years ended December 31, 2022 and 2021.

5. Payments from Participating Members and Participation Agreements:

Premiums for all of the Plans are paid by participating Members to the Benefits Corporation. Benefits Corporation applies a portion of those premiums to administrative fees and expenses for the Plans and Trust, and the remainder of the premiums are deposited in the Trust as Trust assets to be utilized for the benefit of Plan participants. Amounts from members on the Statements of Changes in Net Assets represents the amounts received from Members that are deposited into the Trust, and does not include the amounts the Benefits Corporation applies to administrative fees and expenses of the Plans and Trust.

The Benefits Corporation and the Trust execute a Participation Agreement with each Member that elects to participate in the Plans. The Participation Agreements set forth the rights, obligations, and liabilities of the parties with respect to the Plans and the assets in the Trust, including among other things, the payment of premiums, claims, fees and expenses. Members are required to make monthly payments based on rates that are fixed for the year and do not vary based on the Member's claims experience. Certain Members with a larger number of employees have elected to participate in the Minimum Premium Plan for medical benefits where Members pay monthly based on rates that are fixed for the year, but that are adjusted based on the Member's actual claims experience, such that the Member's payment obligation is reduced if its actual claims are less than expected and increased if its actual claims are greater than expected, subject to individual and aggregate claims liability caps.

For two years following the termination or expiration of a Member's participation in the Minimum Premium Plan, the Trust will pay all claims incurred but not reported prior to such termination or expiration, and the Member is required to reimburse the Trust for such claims up to an expected claims cap. There were 18 and 17 Minimum Premium Plan Members in 2022 and 2021, respectively.

VIRGINIA BANKERS ASSOCIATION GROUP MEDICAL AND DENTAL TRUST

Notes to Financial Statements, Continued

5. Payments from Participating Members and Participation Agreements, Continued:

The Benefits Corporation offers the Plans pursuant to the self-funding arrangement between the Members and the Trust, and the Trust is responsible for paying all claims and benefits under the Plans. The Trust and the Benefits Corporation, with the assistance of underwriting analysis by an independent underwriter, set the rates for each Plan that participating Members pay each year. The rates are designed to cover the expected claims liability, excess loss, policy premiums, administrative fees and expenses, as well as any amounts by which the prior year's actual claims liability exceeded the expected claims liability and to replenish or increase reserves to reasonably prudent levels as determined by management and the Benefits Corporation board of directors.

6. Payments to Insurance Companies and Claims Administrators:

The Benefits Corporation and the Trust have entered into an administrative services only contract with a dental claims administrator to process claims under the dental Plan. The dental claims administrator pays claims periodically and the Trust then reimburses the administrator with Trust assets. The Trust is responsible for paying all claims and benefits under the dental Plan. The dental claims administrator is not liable for paying any claims or benefits under the dental Plan. The Benefits Corporation and the Trust do not have excess loss insurance on the dental Plan, but there is a cap on annual dental benefits per individual participant.

The Benefits Corporation and the Trust have entered into an administrative services only contract with an insurance company to process claims under the medical Plan, and procured an excess loss insurance policy with the same insurance company for excess medical Plan claims. The insurance company pays claims periodically and the Trust reimburses the insurance company with Trust assets. The Trust is responsible for paying all claims and benefits under the medical Plan. The excess loss insurance policy provides that the insurance company will reimburse the Trust for claims liabilities in excess of specified individual and aggregate claims liability thresholds.

The Benefits Corporation and the Trust have entered into an administrative services only contract with a pharmacy benefits administrator and pharmacy benefit manager to process claims under the pharmacy Plan. The insurance company pays claims periodically and the Trust reimburses the insurance company with Trust assets. The Trust is responsible for paying all claims and benefits under the pharmacy Plan. The prescription drug claims are covered and combined with the medical claims under the excess loss insurance policy.

In 2022, the Trust entered into an agreement with RxAssurance to cover a majority of costs for certain specialty medications. The participating employers pay a per employee per month fee to participate in the captive and in the event a member is prescribed one of the medications, the captive covers the cost after a deductible, up to an annual cap. This shifts risk from the Trust and reinsurance contract to a capitated insured agreement.

VIRGINIA BANKERS ASSOCIATION GROUP MEDICAL AND DENTAL TRUST

Notes to Financial Statements, Continued

6. Payments to Insurance Companies and Claims Administrators, Continued:

Amounts paid to insurance companies on the Statements of Changes in Net Assets represents the payments described above to insurance companies for (i) fees for claims administrative services, (ii) premiums for excess loss insurance policies, and (iii) reimbursements for actual medical and dental claims paid. As of December 31, 2022 and 2021, the Trust has recorded a liability for Estimated health claims incurred but not reported on the Statements of Net Assets. This liability represents an estimate for claims that were incurred prior to December 31, 2022 and 2021 but were not paid until 2023 and 2022, respectively.

7. Related Party Transactions:

Various affiliates of the Virginia Bankers Association participate in the Trust. Premiums paid by the individual affiliates were comprised of the following for the years ended December 31:

	2022	2021
Bankers Insurance, LLC	\$ 3,003,776	\$ 2,577,333
Virginia Title Center, L.L.C.	311,362	287,998
Virginia Bankers Association	308,620	327,347
Bankers Title, L.L.C.	97,745	119,566
West Virginia Bankers Title, L.L.C.	76,519	51,202
Bankers Title Shenandoah, L.L.C.	64,121	67,129
	<u>\$ 3,862,143</u>	<u>\$ 3,430,575</u>

8. Plans:

The financial statements are those of the Trust, not of the Plans or Benefits Corporation. The financial statements do not purport to present the financial performance or condition of the Plans or Benefits Corporation. The financial statements do not contain certain information on the benefit obligations and other disclosures necessary for a fair presentation of the financial status of the Plans in conformity with accounting principles generally accepted in the United States. Furthermore, the financial statements do not purport to satisfy the Department of Labor's Rules and Regulations for Reporting and Disclosures under the Employee Retirement Income Security Act of 1974 relating to the financial statements of employee benefit plans.