

**DELTA DENTAL OF WISCONSIN, INC.  
AND AFFILIATES**

**CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2020 and 2019



Strohm Ballweg

CPAs • ADVISORS • CONSULTANTS

**DELTA DENTAL OF WISCONSIN, INC. AND AFFILIATES**

**TABLE OF CONTENTS**

December 31, 2020 and 2019

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|  |           |
|--|-----------|
| <b>INDEPENDENT AUDITOR’S REPORT ON THE FINANCIAL STATEMENTS</b>      | <b>1</b>  |
| <b>FINANCIAL STATEMENTS</b>  |           |
| Consolidated balance sheets  | 3         |
| Consolidated statements of income                                    | 4         |
| Consolidated statements of comprehensive income                      | 5         |
| Consolidated statements of equity                                    | 6         |
| Consolidated statements of cash flows                                | 7         |
| Notes to consolidated financial statements                           | 9         |
| <b>INDEPENDENT AUDITOR’S REPORT ON THE SUPPLEMENTARY INFORMATION</b> | <b>30</b> |
| <b>SUPPLEMENTARY INFORMATION</b>                                     |           |
| Consolidating balance sheet  | 31        |
| Consolidating statement of income                                    | 32        |

## **INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS**

To the Board of Directors  
Delta Dental of Wisconsin, Inc. and Affiliates  
Stevens Point, Wisconsin

We have audited the accompanying consolidated financial statements of Delta Dental of Wisconsin, Inc. and Affiliates, which are comprised of the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibilities for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 entity'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Delta Dental of Wisconsin, Inc. and Affiliates as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended, in accordance with the accounting principles generally accepted in the United States of America.

*Strohm Ballweg, LLP*

Madison, Wisconsin  
March 19, 2021

**DELTA DENTAL OF WISCONSIN, INC. AND AFFILIATES**  
**CONSOLIDATED BALANCE SHEETS**  
December 31, 2020 and 2019

|  | <u>2020</u>           | <u>2019</u>           |
|--|-----------------------|-----------------------|
| <b>ASSETS</b>                                      |                       |                       |
| Current assets:                                    |                       |                       |
| Cash and cash equivalents                          | \$ 27,118,892         | \$ 27,102,453         |
| Restricted cash                                    | 10,708,529            | -                     |
| Uncollected premiums                               | 2,188,651             | 5,148,497             |
| Contracts receivable                               | 3,923,164             | 2,985,904             |
| Reinsurance recoverable on claims unpaid           | 262,000               | 306,500               |
| Other assets                                       | 5,384,572             | 3,835,438             |
| Total current assets                               | 49,585,808            | 39,378,792            |
| Long-lived assets held for sale                    | 3,199,037             | -                     |
| Property and equipment, net                        | 10,975,624            | 6,653,434             |
| Investments in available-for-sale securities       | 159,653,924           | 163,299,732           |
| Investments in common stocks                       | 77,498,208            | 66,342,488            |
| Investment in NorthWinds Technology Solutions, LLC | 9,535,422             | 7,789,912             |
| Investments in privately held companies            | 4,019,819             | 4,758,581             |
| Total assets                                       | <u>\$ 314,467,842</u> | <u>\$ 288,222,939</u> |
| <b>LIABILITIES AND EQUITY</b>                      |                       |                       |
| Current liabilities:                               |                       |                       |
| Claims unpaid                                      | \$ 12,943,000         | \$ 11,967,176         |
| Unpaid claims adjustment expenses                  | 905,000               | 749,000               |
| Deferred revenue and group refunds                 | 10,287,271            | 8,959,859             |
| Accrued expenses                                   | 16,150,898            | 11,352,457            |
| Amounts retained for account of others             | 5,521,778             | 19,039,019            |
| Payable to NorthWinds Technology Solutions, LLC    | 1,393,792             | 747,126               |
| Other liabilities                                  | 406,057               | 1,017,787             |
| Total current liabilities                          | 47,607,796            | 53,832,424            |
| Supplemental retirement plan liability             | 6,329,127             | 10,403,601            |
| Deferred tax liabilities                           | 1,288,118             | 561,956               |
| Total liabilities                                  | 55,225,041            | 64,797,981            |
| Equity:  |                       |                       |
| Retained earnings                                  | 241,326,115           | 220,115,464           |
| Net assets with donor restrictions                 | 10,115,098            | 85,722                |
| Accumulated other comprehensive income             | 7,801,588             | 3,223,772             |
| Total equity                                       | 259,242,801           | 223,424,958           |
| Total liabilities and equity                       | <u>\$ 314,467,842</u> | <u>\$ 288,222,939</u> |

See Notes to Consolidated Financial Statements.

**DELTA DENTAL OF WISCONSIN, INC. AND AFFILIATES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
Years Ended December 31, 2020 and 2019

|  | <u>2020</u>          | <u>2019</u>          |
|--|----------------------|----------------------|
| <b>REVENUES</b>  |                      |                      |
| Insurance revenues:  |                      |                      |
| Risk premiums earned   | \$ 288,543,238       | \$ 281,824,819       |
| Administrative-services-only (ASO) administrative fees                           | 26,655,232           | 26,937,030           |
| ASO claims reimbursed  | <u>411,674,431</u>   | <u>475,373,704</u>   |
| Gross insurance revenues   | 726,872,901          | 784,135,553          |
| ASO claims incurred  | (411,674,431)        | (475,373,704)        |
| Reinsurance ceded  | <u>(6,732,838)</u>   | <u>(7,162,971)</u>   |
| Net insurance revenues   | <u>308,465,632</u>   | <u>301,598,878</u>   |
| Other revenues:  |                      |                      |
| Dental administrative income   | 23,368,175           | 21,455,857           |
| Investment and other income  | 4,907,089            | 5,210,081            |
| Net realized gain (loss) on sale of investments in available-for-sale securities | (449,324)            | 206,469              |
| Net realized gain on sale of investments in common stocks                        | 4,038,913            | 9,811,638            |
| Net unrealized holding gain on common stocks                                     | 8,694,466            | 8,926,510            |
| Loss on investment in NorthWinds Technology Solutions, LLC                       | (3,754,490)          | (3,460,088)          |
| Gain on transfer of internally developed software                                | -                    | 8,864,125            |
| Loss on investments in privately held companies                                  | (1,525,437)          | (5,551,165)          |
| Contributions released from restrictions   | <u>3,609</u>         | <u>1,178</u>         |
| Total other revenues   | <u>35,283,001</u>    | <u>45,464,605</u>    |
| Total revenues   | <u>343,748,633</u>   | <u>347,063,483</u>   |
| <b>EXPENSES</b>  |                      |                      |
| Risk claims incurred   | 209,680,447          | 224,985,128          |
| Reinsurance recoveries   | (4,450,604)          | (5,398,198)          |
| Increase (decrease) in aggregate reserves  | (41,000)             | 96,000               |
| Claims adjustment expenses incurred  | 22,850,261           | 26,225,887           |
| Operating expenses   | 90,807,838           | 76,601,367           |
| Reinsurance ceded commissions  | <u>(521,131)</u>     | <u>(525,040)</u>     |
| Total expenses   | <u>318,325,811</u>   | <u>321,985,144</u>   |
| Income before income tax expense   | 25,422,822           | 25,078,339           |
| Income tax expense   | <u>4,212,171</u>     | <u>2,797,867</u>     |
| Net income   | <u>\$ 21,210,651</u> | <u>\$ 22,280,472</u> |

See Notes to Consolidated Financial Statements.

**DELTA DENTAL OF WISCONSIN, INC. AND AFFILIATES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

Years Ended December 31, 2020 and 2019

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|   | <u>2020</u>          | <u>2019</u>          |
|---|----------------------|----------------------|
| Net income  | <u>\$ 21,210,651</u> | <u>\$ 22,280,472</u> |
| Other comprehensive income, net of tax:                               |                      |                      |
| Net unrealized holding gain arising during period                     | <u>4,991,557</u>     | 5,407,335            |
| Reclassification adjustment for gains (losses) included in net income | <u>(413,741)</u>     | <u>190,537</u>       |
| Other comprehensive income  | <u>4,577,816</u>     | <u>5,597,872</u>     |
| Comprehensive income  | <u>\$ 25,788,467</u> | <u>\$ 27,878,344</u> |

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See Notes to Consolidated Financial Statements.

**DELTA DENTAL OF WISCONSIN, INC. AND AFFILIATES**  
**CONSOLIDATED STATEMENTS OF EQUITY**  
Years Ended December 31, 2020 and 2019

|   | Retained<br>Earnings  | Net Assets<br>with Donor<br>Restrictions | Accumulated<br>Other<br>Comprehensive<br>Income | Total<br>Equity       |
|---|-----------------------|--|---|-----------------------|
| Balance, January 1, 2019                            | \$ 188,828,054        | \$ 86,730                                | \$ 6,632,838                                    | \$ 195,547,622        |
| Comprehensive income:                               |                       |  |   |                       |
| Net income  | 22,280,472            | -  | -   | 22,280,472            |
| Transfer due to change in accounting principle      | 9,006,938             | -  | (9,006,938)                                     | -                     |
| Other comprehensive income, net of tax of \$537,231 | -                     | -  | 5,597,872                                       | 5,597,872             |
| Contributions with donor restrictions               | -                     | 150                                      | -   | 150                   |
| Contributions released from restrictions            | -                     | (1,158)                                  | -   | (1,158)               |
| Balance, December 31, 2019                          | 220,115,464           | 85,722                                   | 3,223,772                                       | 223,424,958           |
| Comprehensive income:                               |                       |  |   |                       |
| Net income  | 21,210,651            | -  | -   | 21,210,651            |
| Other comprehensive income, net of tax of \$472,278 | -                     | -  | 4,577,816                                       | 4,577,816             |
| Contributions with donor restrictions               | -                     | 32,600                                   | -   | 32,600                |
| Endowment fund contributions                        | -                     | 10,000,000                               | -   | 10,000,000            |
| Contributions released from restrictions            | -                     | (3,224)                                  | -   | (3,224)               |
| Balance, December 31, 2020                          | <u>\$ 241,326,115</u> | <u>\$ 10,115,098</u>                     | <u>\$ 7,801,588</u>                             | <u>\$ 259,242,801</u> |

See Notes to Consolidated Financial Statements.

**DELTA DENTAL OF WISCONSIN, INC. AND AFFILIATES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years Ended December 31, 2020 and 2019

|  | <u>2020</u>           | <u>2019</u>            |
|--|-----------------------|------------------------|
| Cash flows from operating activities:  |                       |                        |
| Net income   | \$ 21,210,651         | \$ 22,280,472          |
| Adjustments to reconcile net income to net cash provided by (used for) operating activities: |                       |                        |
| Depreciation   | 724,004               | 877,961                |
| Amortization of premium on debt securities   | 678,035               | 406,324                |
| Deferred taxes   | 253,884               | 586,467                |
| Net (gain) loss on sale of investments in available-for-sale securities                      | 449,061               | (206,469)              |
| Net gain on sale of investments in common stocks   | (4,038,913)           | (9,811,638)            |
| Net unrealized holding gain on common stock  | (8,694,466)           | (8,926,510)            |
| Loss on investment in NorthWinds Technology Solutions, LLC                                   | 3,754,490             | 3,460,088              |
| Gain on transfer of internally developed software  | -                     | (8,864,125)            |
| Loss on investments in privately held companies  | 1,525,437             | 5,551,165              |
| Loss on sale of property and equipment   | 21,234                | 92,873                 |
| Net contributions with donor restrictions  | 29,376                | (1,008)                |
| Net endowment fund contributions with donor restrictions                                     | 10,000,000            | -                      |
| Other  | -                     | (130,992)              |
| Change in assets and liabilities:  |                       |                        |
| Uncollected premiums   | 2,959,846             | (2,904,558)            |
| Contracts receivable   | (937,260)             | (944,522)              |
| Reinsurance recoverable on claims unpaid   | 44,500                | (11,000)               |
| Other assets   | (1,549,134)           | (191,736)              |
| Claims unpaid and unpaid claims adjustment expenses  | 1,131,824             | 2,230,932              |
| Deferred revenue and group refunds   | 1,327,412             | 1,382,423              |
| Accrued expenses   | 4,798,441             | 2,099,025              |
| Amounts retained for account of others   | (13,517,241)          | 3,822,935              |
| Payable to NorthWinds Technology Solutions, LLC  | 646,666               | 747,126                |
| Supplemental retirement plan liability   | (4,074,474)           | 898,406                |
| Other liabilities  | (611,730)             | 502,362                |
| Net cash provided by operating activities  | <u>16,131,643</u>     | <u>12,946,001</u>      |
| Cash flows from investing activities:  |                       |                        |
| Proceeds from sale of investments in available-for-sale securities                           | 50,900,314            | 26,997,308             |
| Proceeds from maturity of investments in available-for-sale securities                       | 18,734,136            | 3,505,000              |
| Proceeds from the sale of investments in common stocks                                       | 22,389,359            | 33,378,492             |
| Purchase of investments in available-for-sale securities                                     | (61,728,970)          | (45,155,192)           |
| Purchase of investments in common stocks   | (21,148,374)          | (24,613,661)           |
| Purchase of investment in NorthWinds Technology Solutions, LLC                               | (5,500,000)           | (2,000,000)            |
| Purchase of investments in privately held securities   | (786,675)             | (3,798,000)            |
| Proceeds from sale of property and equipment   | 46,620                | 6,393                  |
| Purchase of property and equipment   | (8,313,085)           | (1,929,627)            |
| Net cash used for investing activities   | <u>\$ (5,406,675)</u> | <u>\$ (13,609,287)</u> |

See Notes to Consolidated Financial Statements.

**DELTA DENTAL OF WISCONSIN, INC. AND AFFILIATES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS** (Continued)  
Years Ended December 31, 2020 and 2019

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|  | <u>2020</u>          | <u>2019</u>          |
|--|----------------------|----------------------|
| Net increase (decrease) in cash and cash equivalents                                       | \$ 10,724,968        | \$ (663,286)         |
| Cash and cash equivalents, beginning of year   | <u>27,102,453</u>    | <u>27,765,739</u>    |
| Cash, cash equivalents, and restricted cash, end of year                                   | <u>\$ 37,827,421</u> | <u>\$ 27,102,453</u> |
| Supplemental disclosures of cash flows information:  |                      |                      |
| Cash payments for income taxes   | \$ 3,050,000         | \$ 1,845,000         |
| Supplemental schedule of noncash investing and financing activities:                       |                      |                      |
| Change in unrealized holding gains (losses) on available-for-sale securities, net of taxes | 4,577,816            | 3,409,066            |
| Transfer of hardware and software to NorthWinds Technology Solutions, LLC                  | -                    | 9,250,000            |

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See Notes to Consolidated Financial Statements.

**Note 1 ~ Nature of Business and Summary of Significant Accounting Policies**

**Nature of Business.** Delta Dental of Wisconsin, Inc. (Delta WI) was organized in 1962 under Chapters 613 and 181 of the state of Wisconsin statutes as a service insurance corporation. Delta WI writes dental insurance in the state of Wisconsin on credit terms calling for payment of premium upon the effective date of the policy or billing term. Premium revenues consists of "risk" business, in which Delta WI is at risk for claims in excess of premium collected, and administrative-services-only (ASO) plans, in which the respective groups are at risk for the claims incurred by the group and pay a fee to Delta WI for administrative expenses.

Delta WI has a wholly-owned subsidiary, Wyssta, Inc., which serves as a holding company. Wyssta, Inc. has three wholly-owned subsidiaries: Wyssta Insurance Company, Inc., Wyssta Services, Inc., and Wyssta Investments, Inc. Wyssta Insurance Company, Inc. writes group vision insurance in the state of Wisconsin. Wyssta Services, Inc. is licensed as a Third-Party Administrator in various states and provides dental administrative services to ten customers. Other than one customer, the customers consist of other Delta Dental companies, including Delta WI. Wyssta Investments, Inc. holds minority interests in a development stage biotechnology company, a dental analytics company, and a company that performs marketing services for various Delta Dental companies, including Delta WI, with respect to their individual dental insurance products.

Delta Dental of Wisconsin Foundation, Inc. (the Foundation), is a non-stock, non-profit corporation. Delta WI is the sole member and has control of, and an economic interest in, the Foundation; therefore, the Foundation is included in these consolidated financial statements. The Foundation was created to initiate, collaborate with, and support programs that extend access to dental care, ensure a strong dental workforce, and improve the oral health of underserved and vulnerable populations in the state of Wisconsin.

A summary of significant accounting policies follows.

**Principles of Consolidation.** The consolidated financial statements include the activities of Delta WI and its wholly-owned subsidiary, Wyssta, Inc. and its subsidiaries, and the Foundation (together referred to as "the Company"). All significant intercompany transactions and balances have been eliminated.

**Accounting Estimates.** The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Estimates that are particularly susceptible to significant change in the near-term relate to:

- Liabilities for claims unpaid and unpaid claims adjustment expense.
- The assumptions regarding the other-than-temporary impairment analysis of the investment portfolio.
- The assumptions, including the discount rate, used to determine the benefit obligation for the supplemental retirement plan.

**Note 1 ~ Nature of Business and Summary of Significant Accounting Policies** (Continued)

**Cash, Cash Equivalents, and Restricted Cash.** For purposes of reporting cash flows, the Company considers cash in checking accounts and cash invested in money market accounts as cash, cash equivalents, and restricted cash. The Company occasionally has on deposit in a financial institution balances in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC). The Company does not believe it is exposed to any significant credit risk on the uninsured amounts.

**Investments.** The Company has investments in debt securities and common stocks. Management determines the appropriate classification of the debt securities at the time they are acquired and evaluates the appropriateness of such classifications at each balance sheet date. Since the Company neither buys investment securities in anticipation of short-term fluctuations in market prices, nor can commit to holding debt securities to their maturities, the investments in debt securities have been classified as available-for-sale.

Available-for-sale securities and common stocks are stated at fair value. Unrealized holding gains or losses on debt securities, net of the related deferred tax effect, are reported in the other comprehensive income component of equity. Unrealized holding gains or losses on common stocks are included in net income. Realized gains and losses on the sale of available-for-sale securities and common stocks are recognized on the specific identification basis and are included in net income.

The Company also holds minority interests in a development stage biotechnology company (Armata Pharmaceuticals, Inc.), a dental analytics company (Healthentic, Inc.), a company that performs marketing services for various Delta Dental companies with respect to their individual dental insurance products, including Delta WI (Encara Corporation), an analytical software company that determines an individual's oral health risks (PreViser Corporation), and a dental service organization owned by various Delta Dental companies (Link DDS). These investments, with the exception of Armata Pharmaceuticals, Inc. in 2020, are all in privately held companies and are accounted for under the equity method of accounting. Any changes in equity are reported as gains or losses in net income. Armata Pharmaceuticals, Inc. is a publicly traded entity reported at fair value based on a quoted price.

The Company holds a 50 percent ownership interest in NorthWinds Technology Solutions, LLC (NorthWinds), which is accounted for under the equity method of accounting with changes in equity reported as gains or losses in net income.

Declines in fair value which are determined to be other than temporary are included in the statements of income as realized losses. The Company determines a decline to be other than temporary by reviewing and evaluating relevant subjective and objective factors for each security including the length of time the security has been in a loss position, the severity of that loss, the Company's intent and ability to hold the security, a security's current performance, the rating, the financial condition of the issuer, the industry in which the issuer operates, and the status of the market as a whole. Estimating the future cash flows of loan-backed securities also involves assumptions regarding the underlying collateral such as prepayment rates, default and recovery rates, existence of subordinated classes capable of absorbing losses, and third-party servicing abilities. Declines deemed other than temporary were \$0 for both of the years ended December 31, 2020 and 2019.

**Note 1 ~ Nature of Business and Summary of Significant Accounting Policies** (Continued)

**Fair Value Measurements.** Financial instruments are categorized in a fair value hierarchy based on the reliability of inputs to the valuation techniques as follows:

- Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets accessible at the measurement date.
- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets in active markets; quoted prices for identical or similar assets in inactive markets; inputs other than quoted prices that are observable; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Company 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.

**Contracts Receivable and Uncollected Premiums.** Contracts receivable and uncollected premiums are stated at the invoice amount. The carrying amount of contracts receivable and uncollected premiums are reduced by an allowance for doubtful accounts that reflects management's best estimate of accounts that will not be collected. Management reviews contracts receivable and uncollected premiums and establishes an allowance for doubtful accounts based on a specific assessment of all invoices that remain unpaid following normal customer payment periods. All accounts, or portions thereof, deemed to be uncollectible are written-off to the allowance for doubtful accounts in the period that determination is made. The allowance for doubtful accounts on contracts receivable and uncollected premium balances was \$0 at both December 31, 2020 and 2019.

**Long-Lived Assets Held for Sale.** Long-lived assets represent the building and surrounding property that will be disposed of due to the construction of a new corporate office. The Company is currently in negotiations with interested parties on all assets held for sale, with an anticipated net gain estimated between \$1,000,000 and \$2,000,000 at the time of disposal. The Company measures its assets held for sale at the lower of its carrying amount or estimated fair value less costs to sell.

**Property and Equipment.** Property and equipment, other than construction in progress, is carried at cost, less accumulated depreciation and amortization. Depreciation is provided on the straight-line method based on the estimated useful lives of the assets which range from 3 years to 39 years. Construction in progress is carried at cost and is not depreciated until placed into service.

**Claims Unpaid and Unpaid Claims Adjustment Expenses.** The liabilities for claims unpaid and unpaid claims adjustment expenses represent management's estimates of the ultimate net cost of all claims which have been incurred but are unpaid at year end.

**Note 1 ~ Nature of Business and Summary of Significant Accounting Policies** (Continued)

All estimates of claims unpaid and unpaid claims adjustment expenses are continually reviewed, and any adjustments determined to be necessary are reflected in current operations. Since these liabilities are based on estimates, the ultimate settlement of claims and related expenses may vary from the amounts included in the financial statements. Although it is not possible to measure the degree of variability inherent in such estimates, management believes that the liabilities for claims unpaid and unpaid claims adjustment expenses are adequate.

**Risk Premiums.** Premiums are recognized upon the effective date of the coverage. A deferred revenue liability is established for premiums received for coverage in the next fiscal year.

**Administrative-Services-Only Plans.** The Company's administrative fees are derived from ASO arrangements that allow clients to self-fund claims and assume the risk of dental costs. In return for fees from these clients, the Company provides claims administration. Fees are billed, due, and recognized monthly at contracted rates based on the number of subscribers and utilization. This recognition pattern aligns with the benefits from the claims administration services provided to clients.

**Dental Administrative Income.** The Company provides policy billing, fulfillment, and call center services, as well as claim processing and other claim related functions to other Delta Dental companies. The Company receives administrative income based on various factors such as the number of policies in force, the number of subscribers, the number of policies administered, the number of members in the various groups, the number of claims processed, the number of inside sales representatives contracted to serve the customers, and/or minutes on pre-sale phone calls. Fees are billed, due, and recognized monthly at contracted rates. This recognition pattern aligns with satisfaction of performance obligation as defined in the service contracts.

**Vision Claims Incurred and Vision Administration Fees.** The Company rents a vision network and outsources claims administration to EyeMed Vision Care, LLC and First American Administrators, Inc. The Company issues insured policies, as well as provides services for ASO plans. The agreement with EyeMed Vision Care, LLC and First American Administrators, Inc. is based on a per member, per month fee. Fees are billed, due, and recognized monthly at contracted rates. This recognition pattern aligns with satisfaction of performance obligation as defined in the service contracts.

**Reinsurance.** Reinsurance premiums and claim recoveries are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts.

**Contributions.** The Foundation recognizes gifts of cash and other assets as revenue when received or unconditionally pledged. Contributions are recognized as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions, and reported in the consolidated statements of income. The Foundation received contributions without donor restrictions of \$4,500,000 and \$3,500,000 from Delta WI in 2020 and 2019, respectively, which has been eliminated from these consolidated financial statements.

**Note 1 ~ Nature of Business and Summary of Significant Accounting Policies** (Continued)

**Net Assets with Donor-Restrictions.** In 2020, Delta WI committed to contribute \$10,000,000 to a donor restricted endowment fund held by the Foundation. As such, the endowment contribution is classified as a net asset with donor restrictions. The investments of the endowment will follow the investment policy of Delta WI. The Foundation's Board of Directors will review the endowment fund balance on an annual basis and determine if there are any sufficient earnings that can be used to fulfill unmet dental needs in the communities across Wisconsin. As of December 31, 2020, there were no endowment funds available.

**Income Taxes.** Delta WI is organized as a nonprofit dental care plan for federal income tax purposes under Section 501(c)(4) of the Internal Revenue Code, and is, therefore, exempt from federal income taxes. The subsidiary is subject to federal income taxes. For Wisconsin income tax purposes, Delta WI is taxed as an insurance company and files a combined return with its subsidiary. Tax is allocated to each company of the consolidated groups based on separate taxable income. Intercompany tax balances are settled after the filing of the tax returns.

The Foundation is a tax-exempt organization under the provisions of Internal Revenue Code Section 501(c)(3). The Foundation is also exempt from state income taxes.

The Company records deferred income taxes on temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities based on enacted federal and state tax rates expected to apply to the taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

**Advertising Expenses.** Advertising is expensed as incurred. Advertising expenses incurred were approximately \$1,156,000 and \$1,739,000 for the years ended December 31, 2020 and 2019, respectively.

**Accounting Changes.** In 2019, the Company adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09) on a retrospective basis, which is a comprehensive new revenue recognition standard that supersedes most existing revenue recognition guidance under generally accepted accounting principles. The standard's core principle is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 prescribes additional disclosures and financial statement presentations. Insurance contracts are specifically exempted from this ASU. The adoption did not have a material impact on the Company's financial statements.

In 2019, the Company adopted ASU No. 2016-01, *Financial Instruments – Overall – Recognition and Measurement of Financial Assets and Financial Liabilities (Topic 825)*, which requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income, and also simplifies the impairment assessment of equity investments without readily determinable fair values. Upon adoption of this principle on January 1, 2019, the Company transferred \$9,006,938 from accumulated other comprehensive income to retained earnings.

**Note 1 ~ Nature of Business and Summary of Significant Accounting Policies** (Continued)

In 2019, the Company adopted ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which added a disclosure of functional expenses and enhanced disclosures for allocation of functional expenses. ASU No. 2016-14 also changed the presentation of the financial statements by reducing the number of net asset classes to net assets with donor restrictions and net assets without donor restrictions.

In 2020, the Company adopted ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires that the statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Upon adoption, there were no changes to net income or retained earnings.

ASU No. 2016-02, *Leases (Topic 842)*, requires lessees to recognize an asset and liability associated with the right to use a given asset and obligations to make payments pursuant to the terms of the lease. The Company has not yet adopted ASU No. 2016-02 as it is not effective until January 1, 2022, and is currently evaluating the impact of adopting the new standard on its financial statements.

**Foundation Functional Expenses.** Program expenses of \$3,511,804 and \$3,382,036 during 2020 and 2019, respectively, relate to grants to programs that extend access to dental care. General and administrative expenses of \$373,892 in 2020 include \$239,272 for employee expenses and \$134,620 for office and overhead expenses. General and administrative expenses of \$239,219 in 2019 include \$188,996 for employee expenses and \$50,223 for office and overhead expenses.

**Reclassifications.** Certain amounts in the 2019 financial statements have been reclassified to conform to the 2020 classifications.

**Subsequent Events.** In early 2020, the World Health Organization declared the COVID-19 (Coronavirus) outbreak to be a pandemic. The U.S. Government's response to the pandemic included significant limitations on many aspects of Americans' daily lives, including personal mobility and closures of many public facilities. These limitations caused significant disruption to workflow for U.S. companies. As a result of the pandemic, the Company provided a premium credit to subscribers, as well as programs for providers and customers as described below. Management does not believe the pandemic will have significant impacts on the Company's operations or financial results in 2021.

Subsequent events were evaluated through March 19, 2021, which is the date the financial statements were available to be issued.

**Premium Credits.** Due to Coronavirus, the Company provided its subscribers a premium credit equal to one half of the premium to be charged for June 2020, which totaled \$10,909,304. The credit was offset against premiums earned.

# DELTA DENTAL OF WISCONSIN, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

### Note 1 ~ Nature of Business and Summary of Significant Accounting Policies (Continued)

**Unusual or Infrequent Items.** Due to Coronavirus, the Delta WI took two measures to assist providers. The first program the Company provided was an Advance Payment Support Program (APSP) to help providers with cash flow. The APSP allowed providers to take an advance based on historical claim data. The APSP advances ranged between \$1,000 and \$30,000 with total payments of \$2,582,400 in April 2020. All advances were repaid by November 30, 2020. A second program, the Practice Recovery Supplement Program (PRSP), was paid in May 2020 to assist providers with reopening their practices. The PRSP was paid directly to qualifying providers, was not required to be repaid, and totaled \$5,353,271. In addition to the assistance provided to providers, Delta WI also provided administrative fee credits to ASO customers totaling \$1,139,779.

### Note 2 ~ Investments in Available-for-Sale Securities and Common Stocks

The cost and fair value of investments at December 31, 2020 and 2019, were as follows:

|                                      | Cost                  | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value         |
|--------------------------------------|-----------------------|------------------------------|-------------------------------|-----------------------|
| <b>2020</b>                          |                       |                              |                               |                       |
| Bonds (at amortized cost):           |                       |                              |                               |                       |
| U.S. Treasury                        | \$ 46,012,674         | \$ 2,931,384                 | \$ (1,866)                    | \$ 48,942,192         |
| Special revenue – issuer obligations | 4,796,569             | 4,856                        | (280)                         | 4,801,145             |
| Corporate securities                 | 54,088,619            | 3,783,393                    | (7,935)                       | 57,864,077            |
| Loan-backed securities               | 46,171,653            | 1,897,290                    | (22,433)                      | 48,046,510            |
| Total bonds                          | 151,069,515           | 8,616,923                    | (32,514)                      | 159,653,924           |
| Common stocks – publicly traded      | 50,097,713            | 27,570,029                   | (169,534)                     | 77,498,208            |
| Total bonds and common stocks        | <u>\$ 201,167,228</u> | <u>\$ 36,186,952</u>         | <u>\$ (202,048)</u>           | <u>\$ 237,152,132</u> |
| <b>2019</b>                          |                       |                              |                               |                       |
| Bonds (at amortized cost):           |                       |                              |                               |                       |
| U.S. Treasury                        | \$ 59,951,503         | \$ 1,028,103                 | \$ (9,847)                    | \$ 60,969,759         |
| Special revenue – issuer obligations | 3,148,271             | 97,023                       | (11,039)                      | 3,234,255             |
| Corporate securities                 | 54,084,340            | 1,679,683                    | (1,796)                       | 55,762,227            |
| Loan-backed securities               | 42,581,311            | 807,370                      | (55,190)                      | 43,333,491            |
| Total bonds                          | 159,765,425           | 3,612,179                    | (77,872)                      | 163,299,732           |
| Common stocks – publicly traded      | 52,636,458            | 19,288,131                   | (5,582,101)                   | 66,342,488            |
| Total bonds and common stocks        | <u>\$ 212,401,883</u> | <u>\$ 22,900,310</u>         | <u>\$ (5,659,973)</u>         | <u>\$ 229,642,220</u> |

**DELTA DENTAL OF WISCONSIN, INC. AND AFFILIATES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2020 and 2019

**Note 2 ~ Investments in Available-for-Sale Securities and Common Stocks** (Continued)

**Securities in an Unrealized Loss Position.** The following tables show unrealized losses in the Company's portfolio sorted by security type and by length of time that the securities were in an unrealized loss position as of December 31, 2020 and 2019:

|                                      | Less than 12 months  |                       | 12 months or longer  |                     | Total                |                       |
|--------------------------------------|----------------------|-----------------------|----------------------|---------------------|----------------------|-----------------------|
|                                      | Fair Value           | Unrealized Losses     | Fair Value           | Unrealized Losses   | Fair Value           | Unrealized Losses     |
| <b>2020</b>                          |                      |                       |                      |                     |                      |                       |
| U.S. Treasury                        | \$ 15,070,868        | \$ (1,866)            | \$ -                 | \$ -                | \$ 15,070,868        | \$ (1,866)            |
| Special revenue - issuer obligations | 999,720              | (280)                 | -                    | -                   | 999,720              | (280)                 |
| Corporate securities                 | 1,337,580            | (7,935)               | -                    | -                   | 1,337,580            | (7,935)               |
| Loan-backed securities               | 3,176,924            | (19,565)              | 40,555               | (2,868)             | 3,217,479            | (22,433)              |
| Total bonds                          | 20,585,092           | (29,646)              | 40,555               | (2,868)             | 20,625,647           | (32,514)              |
| Common stocks – publicly traded      | 3,532,109            | (126,502)             | 475,648              | (43,032)            | 4,007,757            | (169,534)             |
|                                      | <u>\$ 24,117,201</u> | <u>\$ (156,148)</u>   | <u>\$ 516,203</u>    | <u>\$ (45,900)</u>  | <u>\$ 24,633,404</u> | <u>\$ (202,048)</u>   |
| <b>2019</b>                          |                      |                       |                      |                     |                      |                       |
| U.S. Treasury                        | \$ 18,150,194        | \$ (9,847)            | \$ -                 | \$ -                | \$ 18,150,194        | \$ (9,847)            |
| Special revenue - issuer obligations | 988,490              | (11,039)              | -                    | -                   | 988,490              | (11,039)              |
| Corporate securities                 | 977,549              | (291)                 | 4,002,290            | (1,505)             | 4,979,839            | (1,796)               |
| Loan-backed securities               | 982,592              | (2,780)               | 5,900,251            | (52,410)            | 6,882,843            | (55,190)              |
| Total bonds                          | 21,098,825           | (23,957)              | 9,902,541            | (53,915)            | 31,001,366           | (77,872)              |
| Common stocks – publicly traded      | 2,192,338            | (5,127,370)           | 2,963,539            | (454,731)           | 5,155,877            | (5,582,101)           |
|                                      | <u>\$ 23,291,163</u> | <u>\$ (5,151,327)</u> | <u>\$ 12,866,080</u> | <u>\$ (508,646)</u> | <u>\$ 36,157,243</u> | <u>\$ (5,659,973)</u> |

**Note 2 ~ Investments in Available-for-Sale Securities and Common Stocks** (Continued)

The amortized cost and fair value of bonds at December 31, 2020, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

|  | Amortized<br>Cost     | Fair<br>Value         |
|--|-----------------------|-----------------------|
| Due in one year or less                | \$ 23,493,486         | \$ 23,552,501         |
| Due after one year through five years  | 43,756,386            | 46,068,279            |
| Due after five years through ten years | 47,696,333            | 50,668,023            |
| Due after ten years                    | <u>36,123,310</u>     | <u>39,365,121</u>     |
|  | <u>\$ 151,069,515</u> | <u>\$ 156,653,924</u> |

**Gains and Losses on Available-for-Sale Securities Sold, Matured, or Repaid.** The components of the net realized gain (loss) on the sale of investments in available-for-sale securities were as follows:

|   | 2020                | 2019              |
|---|---------------------|-------------------|
| Gains   | \$ 455,071          | \$ 221,884        |
| Losses  | <u>(904,395)</u>    | <u>(15,415)</u>   |
| Net realized gain (loss) on sale of investments<br>in available-for-sale securities | <u>\$ (449,324)</u> | <u>\$ 206,469</u> |

**Summary of Significant Valuation Techniques for Financial Instruments.** The following valuation techniques and inputs were used to estimate the fair value of each class of significant financial instruments:

**Level 1 Measurements**

Bonds: Comprised of actively traded U.S. Treasury notes. Valuation is based on unadjusted quoted prices for identical assets in active markets that are accessible to the Company at the measurement date.

Common stocks: Comprised of actively traded common stocks. Valuation is based on unadjusted quoted prices for identical assets in active markets that are accessible to the Company at the measurement date.

**DELTA DENTAL OF WISCONSIN, INC. AND AFFILIATES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2020 and 2019

**Note 2 ~ Investments in Available-for-Sale Securities and Common Stocks (Continued)****Level 2 Measurements**

Bonds: Comprised of government obligations, special revenue – issuer obligations, corporate debt, and residential and commercial mortgage-backed securities. Valuation is based on inputs including quoted prices for identical or similar assets in inactive markets. The Company uses a leading, nationally recognized provider of financial market data and analytics to price the Company's bond holdings. However, because many fixed income securities do not trade on a daily basis, the provider's evaluated pricing applications apply available information through processes such as benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing to prepare evaluations.

The following is the aggregate fair value for investments as of December 31, 2020 and 2019:

| <u>Type of Financial Instrument</u> | <u>Aggregate<br/>Fair Value</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|-------------------------------------|---------------------------------|----------------|----------------|----------------|
| <b><u>December 31, 2020</u></b>     |                                 |                |                |                |
| Bonds                               | \$ 159,653,924                  | \$ 48,942,192  | \$ 110,711,732 | \$ -           |
| Common stocks                       | 77,498,208                      | 77,498,208     | -              | -              |
| <b><u>December 31, 2019</u></b>     |                                 |                |                |                |
| Bonds                               | \$ 163,299,732                  | \$ 60,969,762  | \$ 102,392,970 | \$ -           |
| Common stocks                       | 66,342,488                      | 66,342,488     | -              | -              |

Changes in the net unrealized holding gain on investments in available-for-sale securities during the years ended December 31, 2020 and 2019, reported as a separate component of equity, are as follows:

|  | <u>2020</u>         | <u>2019</u>         |
|--|---------------------|---------------------|
| Balance, beginning   | \$ 3,223,772        | \$ 6,632,838        |
| Transfer due to change in accounting principle             | -                   | (9,006,938)         |
| Change in:   |                     |                     |
| Net unrealized holding gain                                | 5,050,094           | 6,135,103           |
| Deferred tax effect related to net unrealized holding gain | (472,278)           | (537,231)           |
| Balance, ending  | <u>\$ 7,801,588</u> | <u>\$ 3,223,772</u> |

**Note 3 ~ Investment in NorthWinds Technology Solutions, LLC**

During 2019, the Company formed NorthWinds. As part of the capital infusion, the Company transferred computer hardware and software, in addition to \$2,000,000, in exchange for 50 percent ownership. The assets transferred had a book value to the Company of \$385,875 prior to the transfer, but was subsequently valued at \$9,250,000, resulting in a recognized gain of \$8,864,125.

Under the equity method of accounting, the Company's share of NorthWinds' equity was \$9,535,422 and \$7,789,912 at December 31, 2020 and 2019, respectively, with losses recognized of \$3,754,490 and \$3,460,088 in 2020 and 2019, respectively. NorthWinds has assets of approximately \$23,459,000, liabilities of approximately \$4,388,000, and owners' equity of approximately \$19,071,000 as of December 31, 2020.

**Note 4 ~ Investments in Privately Held Companies**

**Investment in Armata Pharmaceuticals, Inc. (Armata).** In prior years, the Company invested \$31,000,000 in C3J Therapeutics, Inc. (C3J). On May 9, 2019, C3J merged with AmpliPhi Biosciences Corporation to form a new combined company known as Armata. Armata trades on the NYSE American stock exchange. During 2020, Armata and Innoviva, Inc. (Innoviva) agreed to allow Innoviva to acquire a controlling stake in Armata, which gave Innoviva 63.7 percent of the outstanding shares and diluted Delta WI and Wyssta Investments, Inc. consolidated total ownership down to 11.3 percent. Due to this change in ownership, the investment no longer qualified to be accounted for under the equity method (which had been discontinued), but rather at fair value with unrealized holdings gains and losses included in net income. The value of the investment in Armata was \$6,196,565 and \$0 as of December 31, 2020 and 2019, respectively.

**Investment in Link DDS.** In prior years, the Company invested \$4,798,000 in Link DDS. As of December 31, 2020 and 2019, the Company is a 14.7 percent owner on an outstanding share basis.

Under the equity method of accounting, the Company's share of the equity was \$2,915,981 and \$4,247,667 as of December 31, 2020 and 2019, respectively, with losses of \$1,331,686 and \$198,486 recognized in 2020 and 2019, respectively. Link DDS has assets of approximately \$30,473,000, liabilities of approximately \$411,000, and owners' equity of approximately \$30,062,000, as of December 31, 2020.

**Investment Commitments.** The Company has made the following investment commitments: \$2,550,000 to SpringRock Ventures (SpringRock) in 2021, and \$17,500,000 to NorthWinds over the next 3 years. SpringRock is a venture capital company sponsored by Delta Dental of Washington with other Delta Dental member companies.

The Company's Board of Directors approved a plan to construct a corporate office in a new location for up to \$40,000,000. The building site of 15 acres was purchased for \$1,335,424 in 2019 and construction has started with expected completion at the end of 2021. The Company recorded construction in progress of \$8,186,463 and \$0 at December 31, 2020 and 2019, respectively. No depreciation has been recorded as it has not been placed into service. In 2020, the Company set up a deposit account at WoodTrust Bank in Wisconsin Rapids, Wisconsin for the purpose of making building contractor payments. The amount in this deposit account was \$10,708,529 at December 31, 2020.

**Note 4 ~ Investments in Privately Held Companies** (Continued)

The Company signed a loan to borrow up to \$25,000,000 on October 1, 2020. Collateral for the loan is the new corporate office building, assignment of leases and rents, and assignment of building contracts. At December 31, 2020 no draws had been made, therefore no interest was accrued or paid at December 31, 2020. The loan requires the Company to fund 30 percent of the stabilized appraisal value of \$17,000,000. The loan rate during the construction period (up to 24 months) will be 1.75 percent of the Federal Funds rate with a floor of 2.75 percent and a ceiling rate of 5 percent. The permanent financing after construction will be 2.25 percent of the Federal Funds rate with a floor of 3 percent and a ceiling rate of 5.75 percent. The permanent loan amortization can be up to 25 years, with incentives to reduce the interest rate for 10-year or 20-year amortization of 25 basis points or 15 basis points, respectively. The loan can be paid off at any point with no additional fees.

**Note 5 ~ Repurchase Agreement**

The Company has entered into a reverse repurchase agreement with WoodTrust Bank located in Wisconsin Rapids, Wisconsin to earn additional yield on cash balances. The Company requires that at least 100 percent of the fair value of securities purchased under the reverse repurchase agreement be maintained as collateral.

The reverse repurchase agreement transactions are traded on a bi-lateral basis. The maturity time frame for which transactions occur are on an overnight basis. All transactions have been accounted for as secured borrowings. There were no sales or acquisitions during 2020 and 2019 that resulted in default.

All securities acquired during 2020 and 2019 as part of this agreement were U.S. government securities (which may include agencies and money market mutual funds). The cash pledged as collateral for securities purchased is fully transacted on an overnight and open basis. The Company records the transactions on a net basis and does not record a receivable or liability for the return of collateral. The fair value of securities acquired and the cash collateral provided was \$569 and \$23,944,618 as of December 31, 2020 and 2019, respectively.

**DELTA DENTAL OF WISCONSIN, INC. AND AFFILIATES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2020 and 2019

**Note 6 ~ Property and Equipment**

The major classes of property and equipment and related accumulated depreciation and amortization as of December 31, 2020 and 2019, are as follows:

|   | <u>2020</u>          | <u>2019</u>         |
|---|----------------------|---------------------|
| Land                                      | \$ 1,335,424         | \$ 2,118,254        |
| Building and building improvements        | -                    | 7,198,434           |
| Construction in progress                  | 8,186,463            | -                   |
| Leasehold improvements                    | 556,952              | 555,780             |
| Furniture and equipment                   | 2,151,034            | 2,154,312           |
| Vehicles                                  | <u>744,107</u>       | <u>799,046</u>      |
|   | 12,973,980           | 12,825,826          |
| Accumulated depreciation and amortization | <u>(1,998,356)</u>   | <u>(6,172,392)</u>  |
| Net property and equipment                | <u>\$ 10,975,624</u> | <u>\$ 6,653,434</u> |

Depreciation expense was \$724,004 and \$877,961 for the years ended December 31, 2020 and 2019, respectively.

**Note 7 ~ Related-Party Transactions**

NorthWinds provides IT services to the Company and its subsidiaries. NorthWinds billed the Company directly for IT services. Also, the Company is reimbursed on a cost basis for overhead and payroll. Shown below are transactions with NorthWinds as of the years ended December 31:

|  | <u>2020</u>   | <u>2019</u>  |
|--|---------------|--------------|
| IT services billed by NorthWinds             | \$ 14,257,065 | \$ 5,905,595 |
| Overhead and payroll allocated to NorthWinds | 217,820       | 5,434,613    |

**DELTA DENTAL OF WISCONSIN, INC. AND AFFILIATES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2020 and 2019

**Note 8 ~ Liabilities for Claims Unpaid**

Activity in the liabilities for claims unpaid (including claims paid for ASO plans) for the years ended December 31, 2020 and 2019, is summarized as follows:

|                               | <u>2020</u>          | <u>2019</u>          |
|-------------------------------|----------------------|----------------------|
| Balance, beginning of year    | \$ 11,967,176        | \$ 9,845,300         |
| Less reinsurance recoverable  | <u>306,500</u>       | <u>295,500</u>       |
| Net balance at January 1      | <u>11,660,676</u>    | <u>9,549,800</u>     |
| Incurred related to:          |                      |                      |
| Current year                  | 616,562,996          | 695,539,210          |
| Prior years                   | <u>341,278</u>       | <u>(578,576)</u>     |
| Total incurred                | <u>616,904,274</u>   | <u>694,960,634</u>   |
| Paid related to:              |                      |                      |
| Current year                  | 603,881,996          | 683,878,534          |
| Prior years                   | <u>12,001,954</u>    | <u>8,971,224</u>     |
| Total paid                    | <u>615,883,950</u>   | <u>692,849,758</u>   |
| Net balance at December 31    | 12,681,000           | 11,660,676           |
| Plus reinsurance recoverables | <u>262,000</u>       | <u>306,500</u>       |
| Balance, end of year          | <u>\$ 12,943,000</u> | <u>\$ 11,967,176</u> |

The previous schedule does not include claims adjustment expenses since these amounts represent an allocation of general expenses, and therefore, are not monitored on an incurred year basis.

As a result of changes in estimates of insured events in prior years, net claims incurred were increased (decreased) by \$341,278 and (\$578,576) in 2020 and 2019, respectively.

**DELTA DENTAL OF WISCONSIN, INC. AND AFFILIATES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2020 and 2019

**Note 8 ~ Liabilities for Claims Unpaid** (Continued)

The following is information about incurred and paid claims development as of December 31, 2020, as well as the total of incurred-but-not-reported (IBNR) liabilities:

| Cumulative Incurred Claims (\$000's)          |            |            |            |            |                     | As of 12/31/2020 |
|---|------------|------------|------------|------------|---------------------|------------------|
| Year  | 2016       | 2017       | 2018       | 2019       | 2020                | IBNR             |
| 2016  | \$ 193,695 | \$ 192,754 | \$ 192,754 | \$ 192,754 | \$ 192,754          |                  |
| 2017  |            | 198,941    | 198,147    | 198,147    | 198,147             |                  |
| 2018  |            |            | 209,949    | 209,370    | 209,370             |                  |
| 2019  |            |            |            | 220,166    | 220,506             |                  |
| 2020  |            |            |            |            | 192,570             | 6,975            |
| Total   |            |            |            |            | <u>\$ 1,013,347</u> |                  |
| Cumulative Paid Claims (\$000's)              |            |            |            |            |                     |                  |
| Year  | 2016       | 2017       | 2018       | 2019       | 2020                |                  |
| 2016  | \$ 182,960 | \$ 192,754 | \$ 192,754 | \$ 192,754 | \$ 192,754          |                  |
| 2017  |            | 189,104    | 198,147    | 198,147    | 198,147             |                  |
| 2018  |            |            | 200,399    | 209,370    | 209,370             |                  |
| 2019  |            |            |            | 208,505    | 220,506             |                  |
| 2020  |            |            |            |            | 179,889             |                  |
| Total   |            |            |            |            | <u>1,000,666</u>    |                  |
| Claims unpaid, net of reinsurance recoverable |            |            |            |            | <u>\$ 12,681</u>    |                  |

Cumulative claims frequency for dental and vision claims is not pertinent to the liability valuation process, and therefore, was not disclosed.

**DELTA DENTAL OF WISCONSIN, INC. AND AFFILIATES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2020 and 2019

**Note 9 ~ Income Taxes**

Income tax expense differs from the amounts obtained by applying applicable tax rates to the pretax income for the years ended December 31, 2020 and 2019, due to the following:

|   | <u>2020</u>         | <u>2019</u>         |
|---|---------------------|---------------------|
| Expected tax provision at state income tax rate of 7.9 percent  | \$ 1,803,782        | \$ 1,911,004        |
| Expected tax provision at blended federal and state income tax rate of 27.2 percent (subsidiary only) | 2,315,017           | 1,046,714           |
| Increase (decrease) in income taxes resulting from:   |                     |                     |
| Change in deferred tax valuation allowance  | 526,066             | 709,709             |
| Non-deductible ACA industry fee   | 244,890             | -                   |
| Gain on transfer of hardware and software to NorthWinds   | -                   | (700,266)           |
| Other - net   | <u>(677,584)</u>    | <u>(169,294)</u>    |
| Income tax expense  | <u>\$ 4,212,171</u> | <u>\$ 2,797,867</u> |

The items that gave rise to the deferred tax assets (liabilities) for the years ended December 31, 2020 and 2019, were as follows:

|   | <u>2020</u>           | <u>2019</u>         |
|---|-----------------------|---------------------|
| Deferred tax assets:                                |                       |                     |
| Claims unpaid and unpaid claims adjustment expenses | \$ 17,413             | \$ 16,139           |
| Premiums received in advance                        | 168,325               | 143,681             |
| Deferred compensation                               | 500,001               | 998,421             |
| Charitable contribution carryforward                | 2,101,840             | 883,958             |
| Unrealized loss on investments                      | 6,097,848             | 6,751,517           |
| Other   | <u>539,398</u>        | <u>139,726</u>      |
| Total deferred tax assets                           | 9,424,825             | 8,933,442           |
| Valuation allowance                                 | (8,199,688)           | (7,673,622)         |
| Deferred tax liabilities:                           |                       |                     |
| Unrealized gains on investments                     | (2,505,069)           | (1,821,776)         |
| Other   | <u>(8,186)</u>        | <u>-</u>            |
|   | <u>(2,513,255)</u>    | <u>(1,821,776)</u>  |
| Net deferred tax liabilities                        | <u>\$ (1,288,118)</u> | <u>\$ (561,956)</u> |

**DELTA DENTAL OF WISCONSIN, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2020 and 2019

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**Note 9 ~ Income Taxes** (Continued)

The income tax provision for the years ended December 31, 2020 and 2019, consist of the following:

|                              | <u>2020</u>         | <u>2019</u>         |
|------------------------------|---------------------|---------------------|
| Current expense – Delta WI   | \$ 1,965,937        | \$ 1,202,914        |
| Current expense – subsidiary | 1,992,350           | 1,008,486           |
| Deferred tax expense         | <u>253,884</u>      | <u>586,467</u>      |
| Total income tax provision   | <u>\$ 4,212,171</u> | <u>\$ 2,797,867</u> |

Federal income taxes which would be available for recoupment in the event of future tax losses are approximately \$1,404,000 and \$674,300 for 2020 and 2019, respectively.

The subsidiary's federal income tax returns for 2017 – 2020, and state tax returns for 2016 – 2020, are subject to examination by tax authorities generally 3 years after they were filed for federal, and 4 years for state. As of December 31, 2020, the Company had not identified any material loss contingencies arising from uncertain tax positions.

**Note 10 ~ Retirement Plans**

**Qualified Retirement Plan.** Effective July 31, 2019, the defined contribution pension plan and the 401(k) plan were merged into a single plan, the Delta Dental of Wisconsin, Inc. Retirement Plan. The Company continues to fund the plan in accordance with the guidelines of the former plans. The new plan has simplified record keeping and lower fees for participants.

Eligible participants under the plan are all employees who are at least 20½ years old and who have completed at least 3 months of service. The plan requires annual contributions to be made to eligible participants' accounts equal to 6.5 percent of total compensation. The Company's contribution totaled \$1,414,047 in 2020 and \$1,656,423 in 2019.

Employees may elect to contribute from 1 percent to 50 percent of his/her pre-tax salary up to Internal Revenue Service limits. In 2020 and 2019, the Company matched 85 percent of the employees' contributions up to \$4,250 and \$3,613, respectively, per employee. The Company's contribution expenses were \$858,156 for 2020 and \$958,343 for 2019.

**Supplemental Executive Retirement Plan (SERP).** The Company has entered into SERP arrangements with members of senior management. Participants in the plan will receive a lump sum benefit representing the present value of an annuity due. The present value benefit will be based on a percentage of base compensation at the date of their retirement or an agreed-upon date in the future and for a stated number of years. The plan is unfunded.

**DELTA DENTAL OF WISCONSIN, INC. AND AFFILIATES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2020 and 2019

**Note 10 ~ Retirement Plans** (Continued)

The following tables provide reconciliations of the changes in the benefit obligation, funded status, costs, and assumptions of the plan at December 31:

|   | <u>2020</u>           | <u>2019</u>            |
|---|-----------------------|------------------------|
| Change in benefit obligation:   |                       |                        |
| Benefit obligation at beginning of year   | \$ 10,403,601         | \$ 9,505,195           |
| Interest cost   | 326,530               | 384,010                |
| Service cost  | 1,121,021             | 735,751                |
| Actuarial loss  | 495,930               | 1,078,645              |
| Benefits paid   | <u>(6,017,955)</u>    | <u>(1,300,000)</u>     |
| Benefit obligation at end of year   | <u>\$ 6,329,127</u>   | <u>\$ 10,403,601</u>   |
| Funded status (amount recognized on balance sheets)                             | <u>\$ (6,329,127)</u> | <u>\$ (10,403,601)</u> |
| Components of net periodic benefit cost:  |                       |                        |
| Service cost  | \$ 1,121,021          | \$ 735,751             |
| Interest cost   | <u>326,530</u>        | <u>384,010</u>         |
| Total net periodic benefit cost   | <u>\$ 1,447,551</u>   | <u>\$ 1,119,761</u>    |
| Assumptions used to determine benefit obligation and net periodic benefit cost: |                       |                        |
| Discount rate   | 1.85%                 | 2.79%                  |
| Rate of compensation increase   | 3.50%                 | 3.50%                  |

Projected benefit payments are as follows:

|       |           |
|-------|-----------|
| 2021  | \$ -      |
| 2022  | 3,258,213 |
| 2023  | -         |
| 2024  | -         |
| 2025  | 548,647   |
| After | 2,522,267 |

**Note 11 ~ Reinsurance Assumed**

The Company entered into an agreement on January 1, 2006, with other Delta Dental companies called the Federal Marketing Group to pool resources for the purpose of promoting and supporting a coordinated effort to secure contracts for dental programs with federal agencies; implement and govern the administration of resources; and define the opportunity for the allocation and sharing of risk among the participants; in the event a federal contract is entered into by any of the participants with the use and support of the Federal Marketing Group's resources or funding. As of December 31, 2020 and 2019, the Company participated in two federal contracts. The Company's portion of profits and losses is recorded as assumed premiums and claims.

The amounts included in the financial statements as a result of reinsurance assumed were as follows, as of and for the years ended, December 31:

|                                     | <u>2020</u>   | <u>2019</u>  |
|-------------------------------------|---------------|--------------|
| Premiums earned                     | \$ 10,923,731 | \$ 9,449,133 |
| Claims incurred                     | 9,877,693     | 9,511,565    |
| Funds held by the reinsured company | 492,014       | 12,888       |

**Note 12 ~ Lease Commitments**

The Company leases office space, software, and equipment under various operating leases. The original terms of the leases vary from 3 years to 5 years.

Future minimum lease payments under these leases are as follows:

| <u>Years Ending December 31,</u> |                     |
|----------------------------------|---------------------|
| 2021                             | \$ 854,643          |
| 2022                             | 322,131             |
| 2023                             | 77,540              |
| 2024                             | 72,270              |
| 2025                             | <u>74,438</u>       |
|                                  | <u>\$ 1,401,022</u> |

The Company's leased software is mainly used by NorthWinds. The lease commitments have been included above; however, lease payments are reimbursed by NorthWinds.

Total rental expense paid by the Company net of reimbursements described above was \$452,838 and \$3,144,050 for the years ended December 31, 2020 and 2019, respectively.

**Note 13 ~ Software Commitments**

In 2020, the Company entered a digital services agreement with Delta Dental of Washington. The agreement allows the Company to use their software on a cloud-based platform that offers tools to enhance the user experiences of members, groups, brokers, and providers. The Company will provide tenant data to the platform and has committed \$500,000 at December 31, 2020, for preparing the data for the platform use. In addition to the data preparation fee, the platform use fee will be \$975,000, annually. The platform is expected to be ready for use in 2021.

**Note 14 ~ Statutory Net Income and Surplus**

Accounting principles generally accepted in the United States of America differ in certain respects from the accounting practices prescribed or permitted by insurance regulatory authorities (statutory basis).

Statutory net income and surplus for Delta WI in 2020 and 2019, were as follows:

|                      | <u>2020</u>   | <u>2019</u>  |
|----------------------|---------------|--------------|
| Statutory net income | \$ 11,879,672 | \$ 7,706,683 |
| Statutory surplus    | 221,843,959   | 196,710,817  |

Statutory net income and surplus for Wyssta Insurance Company, Inc. in 2020 and 2019, were as follows:

|                      | <u>2020</u>  | <u>2019</u>  |
|----------------------|--------------|--------------|
| Statutory net income | \$ 2,077,124 | \$ 2,219,092 |
| Statutory surplus    | 13,391,108   | 12,268,041   |

Delta WI and Wyssta Insurance Company, Inc. are required to maintain minimum surplus established by the Office of the Commissioner of Insurance of the State of Wisconsin (the OCI). Delta WI and Wyssta Insurance Company, Inc. are also subject to risk-based capital (RBC) requirements promulgated by the NAIC and adopted by the OCI. The RBC standards establish uniform minimum surplus requirements for insurance companies. The RBC formula applies various weighting factors to financial balances or various levels of activities based on the perceived degree of risk. At December 31, 2020 and 2019, Delta WI and Wyssta Insurance Company, Inc. surplus exceeded the minimum levels required by the OCI and RBC standards.

**Note 15 ~ Health Insurer Fee**

On January 1, 2014, the Company became subject to an annual fee under section 9010 of the Affordable Care Act (ACA). This annual fee is allocated to individual health insurers based on the ratio of the amount of the entity's net premiums written during the preceding calendar year to the amount of health insurance for any U.S. health risk that is written during the preceding calendar year. A health insurance entity's portion of the annual fee becomes payable once the entity provides health insurance for any U.S. health risk for each calendar year beginning on or after January 1, 2014. For the year ended December 31, 2020, the Company paid and expensed an annual fee of \$2,391,377 based on premiums written in 2019. Due to a 1-year moratorium enacted for 2018, the Company did not pay an annual fee in 2019. The fee was repealed for calendar years beginning after December 31, 2020.

**Note 16 ~ Contingencies**

The Company, along with the Delta Dental Plans Association (DDPA), DeltaUSA, and the other independent DDPA member companies, is defending lawsuits that have been filed in at least 10 different district courts. The Company and the other defendants to the lawsuits have requested that the cases be consolidated before a single district court for pretrial proceedings. The plaintiffs, representing purported classes of dental providers, allege that various DDPA member company licensing standards violate federal antitrust laws. The Company believes the claims are meritless and intends to vigorously defend the cases. At this point, it is too early in the proceedings to determine the outcome of the cases or the range or amount of any potential loss.

**INDEPENDENT AUDITOR'S REPORT  
ON THE SUPPLEMENTARY INFORMATION**

To the Board of Directors  
Delta Dental of Wisconsin, Inc. and Affiliates  
Stevens Point, Wisconsin

We have audited the consolidated financial statements of Delta Dental of Wisconsin, Inc. and Affiliates as of and for the year ended December 31, 2020, and our report thereon dated March 19, 2021, which expressed an unmodified opinion on those consolidated financial statements, appears on pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating information on pages 30 and 31 is presented for the purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Strohm Ballweg, LLP*

Madison, Wisconsin  
March 19, 2021

**DELTA DENTAL OF WISCONSIN, INC. AND AFFILIATES**  
**CONSOLIDATING BALANCE SHEET**

December 31, 2020 (with Comparative Totals for 2019)

|  |                                    |                                  |  |                        | Consolidated          |                       |
|--|------------------------------------|----------------------------------|--|------------------------|-----------------------|-----------------------|
|  | Delta Dental of<br>Wisconsin, Inc. | Wyssta, Inc.<br>and Subsidiaries | Delta Dental<br>of Wisconsin<br>Foundation, Inc. | Eliminations           | 2020                  | 2019                  |
| <b>ASSETS</b>                                |                                    |                                  |  |                        |                       |                       |
| Current assets:                              |                                    |                                  |  |                        |                       |                       |
| Cash and cash equivalents                    | \$ 11,689,281                      | \$ 11,010,233                    | \$ 4,419,378                                     | \$ -                   | \$ 27,118,892         | \$ 27,102,453         |
| Restricted cash                              | 10,708,529                         | -                                | -  | -                      | 10,708,529            | -                     |
| Uncollected premiums                         | 2,168,610                          | 20,041                           | -  | -                      | 2,188,651             | 5,148,497             |
| Contracts receivable                         | -                                  | 3,923,164                        | -  | -                      | 3,923,164             | 2,985,904             |
| Reinsurance recoverable on claims unpaid     | 262,000                            | -                                | -  | -                      | 262,000               | 306,500               |
| Other assets                                 | 4,545,096                          | 839,476                          | -  | -                      | 5,384,572             | 3,835,438             |
| Total current assets                         | 29,373,516                         | 15,792,914                       | 4,419,378  | -                      | 49,585,808            | 39,378,792            |
| Long-lived assets held for sale              |                                    |                                  |  |                        |                       |                       |
| Property and equipment, net                  | 3,199,037                          | -                                | -  | -                      | 3,199,037             | -                     |
| Investments in available-for-sale securities | 10,975,624                         | -                                | -  | -                      | 10,975,624            | 6,653,434             |
| Investments in common stocks                 | 150,037,986                        | 9,615,938                        | -  | -                      | 159,653,924           | 163,299,732           |
| Investment in subsidiary                     | 74,848,570                         | 2,649,638                        | -  | -                      | 77,498,208            | 66,342,488            |
| Investment in NorthWinds                     | 23,152,877                         | -                                | -  | (23,152,877)           | -                     | -                     |
| Investments in privately held companies      | 9,535,422                          | -                                | -  | -                      | 9,535,422             | 7,789,912             |
|  | 3,457,151                          | 562,668                          | -  | -                      | 4,019,819             | 4,758,581             |
| Total assets                                 | <u>\$ 304,580,183</u>              | <u>\$ 28,621,158</u>             | <u>\$ 4,419,378</u>                              | <u>\$ (23,152,877)</u> | <u>\$ 314,467,842</u> | <u>\$ 288,222,939</u> |
| <b>LIABILITIES AND EQUITY</b>                |                                    |                                  |  |                        |                       |                       |
| Current liabilities:                         |                                    |                                  |  |                        |                       |                       |
| Claims unpaid                                | \$ 12,580,000                      | \$ 363,000                       | \$ -   | \$ -                   | \$ 12,943,000         | \$ 11,967,176         |
| Unpaid claims adjustment expenses            | 881,000                            | 24,000                           | -  | -                      | 905,000               | 749,000               |
| Deferred revenue and group refunds           | 9,674,046                          | 613,225                          | -  | -                      | 10,287,271            | 8,959,859             |
| Accrued expenses                             | 11,086,416                         | 3,747,180                        | 1,317,302  | -                      | 16,150,898            | 11,352,457            |
| Amounts retained for account of others       | 5,521,778                          | -                                | -  | -                      | 5,521,778             | 19,039,019            |
| Payable to NorthWinds                        | 1,028,210                          | 365,582                          | -  | -                      | 1,393,792             | 747,126               |
| Payable to subsidiary                        | 9,795,525                          | 180,902                          | (9,976,427)                                      | -                      | -                     | -                     |
| Other liabilities                            | 406,057                            | -                                | -  | -                      | 406,057               | 1,017,787             |
| Total current liabilities                    | 50,973,032                         | 5,293,889                        | (8,659,125)                                      | -                      | 47,607,796            | 53,832,424            |
| Supplemental retirement plan liability       | 6,329,127                          | -                                | -  | -                      | 6,329,127             | 10,403,601            |
| Deferred tax liabilities                     | 1,113,726                          | 174,392                          | -  | -                      | 1,288,118             | 561,956               |
| Total liabilities                            | <u>58,415,885</u>                  | <u>5,468,281</u>                 | <u>(8,659,125)</u>                               | <u>-</u>               | <u>55,225,041</u>     | <u>64,797,981</u>     |
| Equity:                                      |                                    |                                  |  |                        |                       |                       |
| Retained earnings                            | 238,362,710                        | 22,759,124                       | 2,963,405  | (22,759,124)           | 241,326,115           | 220,115,464           |
| Net assets with donor restrictions           | -                                  | -                                | 10,115,098                                       | -                      | 10,115,098            | 85,722                |
| Accumulated other comprehensive income       | 7,801,588                          | 393,753                          | -  | (393,753)              | 7,801,588             | 3,223,772             |
| Total equity                                 | <u>246,164,298</u>                 | <u>23,152,877</u>                | <u>13,078,508</u>                                | <u>(23,152,877)</u>    | <u>259,242,801</u>    | <u>223,424,958</u>    |
| Total liabilities and equity                 | <u>\$ 304,580,183</u>              | <u>\$ 28,621,158</u>             | <u>\$ 4,419,378</u>                              | <u>\$ (23,152,877)</u> | <u>\$ 314,467,842</u> | <u>\$ 288,222,939</u> |

**DELTA DENTAL OF WISCONSIN, INC. AND AFFILIATES**  
**CONSOLIDATING STATEMENT OF INCOME**  
Year ended December 31, 2020 (with Comparative Totals for 2019)

|   | Delta Dental of<br>Wisconsin, Inc. | Wyssta, Inc.  | Foundation | Eliminations   | Consolidated   |                |
|---|------------------------------------|---------------|------------|----------------|----------------|----------------|
|   |                                    |               |            |                | 2020           | 2019           |
| <b>REVENUES</b>   |                                    |               |            |                |                |                |
| Insurance revenues:   |                                    |               |            |                |                |                |
| Risk premiums earned  | \$ 269,672,911                     | \$ 18,870,327 | \$ -       | \$ -           | \$ 288,543,238 | \$ 281,824,819 |
| ASO administrative fees   | 26,587,530                         | 67,702        | -          | -              | 26,655,232     | 26,937,030     |
| ASO claims reimbursed   | 411,620,121                        | 54,310        | -          | -              | 411,674,431    | 475,373,704    |
| Gross insurance revenues  | 707,880,562                        | 18,992,339    | -          | -              | 726,872,901    | 784,135,553    |
| ASO claims incurred   | (411,620,121)                      | (54,310)      | -          | -              | (411,674,431)  | (475,373,704)  |
| Reinsurance ceded   | (6,732,838)                        | -             | -          | -              | (6,732,838)    | (7,162,971)    |
| Net insurance revenues  | 289,527,603                        | 18,938,029    | -          | -              | 308,465,632    | 301,598,878    |
| Other revenues:   |                                    |               |            |                |                |                |
| Dental administrative income  | 3,060,379                          | 23,058,971    | -          | (2,751,175)    | 23,368,175     | 21,455,857     |
| Investment and other income   | 4,663,201                          | 243,887       | -          | -              | 4,907,089      | 5,210,081      |
| Net realized gain (loss) on sale of investments in<br>available-for-sale securities | (439,001)                          | (10,323)      | -          | -              | (449,324)      | 206,469        |
| Net realized gain on sale of investments in<br>common stocks                        | 4,050,188                          | (11,275)      | -          | -              | 4,038,913      | 9,811,638      |
| Net unrealized holding gain on common stocks  | 7,216,414                          | 1,478,052     | -          | -              | 8,694,466      | 8,926,510      |
| Loss on investment in NorthWinds  | (3,754,490)                        | -             | -          | -              | (3,754,490)    | (3,460,088)    |
| Gain on transfer of internally developed software                                   | -                                  | -             | -          | -              | -              | 8,864,125      |
| Loss on investment in privately held companies                                      | (1,577,190)                        | 51,753        | -          | -              | (1,525,437)    | (5,551,165)    |
| Contributions released from restrictions  | -                                  | -             | 4,503,609  | (4,500,000)    | 3,609          | 1,178          |
| Income from subsidiary  | 6,538,870                          | -             | -          | (6,538,870)    | -              | -              |
| Total other revenues  | 19,758,371                         | 24,811,065    | 4,503,609  | (13,790,045)   | 35,283,001     | 45,464,605     |
| Total revenues  | 309,285,974                        | 43,749,094    | 4,503,609  | (13,790,045)   | 343,748,633    | 347,063,483    |
| <b>EXPENSES</b>   |                                    |               |            |                |                |                |
| Risk claims incurred  | 197,588,972                        | 12,091,475    | -          | -              | 209,680,447    | 224,985,128    |
| Reinsurance recoveries  | (4,450,604)                        | -             | -          | -              | (4,450,604)    | (5,398,198)    |
| Increase (decrease) in aggregate reserves   | (41,000)                           | -             | -          | -              | (41,000)       | 96,000         |
| Claims adjustment expenses incurred   | 21,773,132                         | 1,077,129     | -          | -              | 22,850,261     | 26,225,887     |
| Operating expenses  | 72,103,917                         | 22,069,400    | 3,885,696  | (7,251,175)    | 90,807,838     | 76,601,367     |
| Reinsurance ceded commissions   | (521,131)                          | -             | -          | -              | (521,131)      | (525,040)      |
| Total expenses  | 286,453,286                        | 35,238,004    | 3,885,696  | (7,251,175)    | 318,325,811    | 321,985,144    |
| Income before income tax expense  | 22,832,688                         | 8,511,090     | 617,913    | (6,538,870)    | 25,422,822     | 25,078,339     |
| Income tax expense  | 2,239,951                          | 1,972,220     | -          | -              | 4,212,171      | 2,797,867      |
| Net income  | \$ 20,592,737                      | \$ 6,538,870  | \$ 617,913 | \$ (6,538,870) | \$ 21,210,651  | \$ 22,280,472  |