

DELTA DENTAL OF WISCONSIN, INC.
AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020



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DELTA DENTAL OF WISCONSIN, INC. AND AFFILIATES
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December 31, 2021 and 2020

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INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

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

Opinion

We have audited the accompanying consolidated financial statements of Delta Dental of Wisconsin, Inc. and Affiliates (the Company), which are comprised of the consolidated balance sheets as of December 31, 2021 and 2020, 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Strohm Ballweg, LLP

Madison, Wisconsin
March 24, 2022

DELTA DENTAL OF WISCONSIN, INC. AND AFFILIATES
CONSOLIDATED BALANCE SHEETS
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 44,718,919	\$ 27,118,892
Restricted cash	-	10,708,529
Uncollected premiums	2,572,103	2,188,651
Contracts receivable	2,970,257	3,923,164
Reinsurance recoverable on claims unpaid	217,500	262,000
Other assets	<u>6,010,503</u>	<u>5,384,572</u>
Total current assets	56,489,282	49,585,808
Long-lived assets held for sale	7,242	3,199,037
Property and equipment, net	43,228,906	10,975,624
Investments in available-for-sale securities	162,139,332	159,653,924
Investments in common stocks	95,530,531	77,498,208
Investment in NorthWinds Technology Solutions, LLC	11,627,910	9,535,422
Investments in privately held companies	<u>4,575,990</u>	<u>4,019,819</u>
Total assets	<u>\$ 373,599,193</u>	<u>\$ 314,467,842</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Claims unpaid	\$ 13,265,000	\$ 12,943,000
Unpaid claims adjustment expenses	942,000	905,000
Deferred revenue and group refunds	10,646,604	10,287,271
Accrued expenses	14,333,269	16,150,898
Amounts retained for account of others	25,470,995	5,521,778
Payable to NorthWinds Technology Solutions, LLC	1,542,437	1,393,792
Other liabilities	<u>588,878</u>	<u>406,057</u>
Total current liabilities	66,789,183	47,607,796
Construction loan	16,098,549	-
Supplemental retirement plan liability	4,136,351	6,329,127
Deferred tax liabilities	<u>1,336,095</u>	<u>1,288,118</u>
Total liabilities	<u>88,360,178</u>	<u>55,225,041</u>
Equity:		
Retained earnings	272,171,133	241,326,115
Net assets with donor restrictions	10,413,067	10,115,098
Accumulated other comprehensive income	<u>2,654,815</u>	<u>7,801,588</u>
Total equity	<u>285,239,015</u>	<u>259,242,801</u>
Total liabilities and equity	<u>\$ 373,599,193</u>	<u>\$ 314,467,842</u>

See Notes to Consolidated Financial Statements.

DELTA DENTAL OF WISCONSIN, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
REVENUES		
Insurance revenues:		
Risk premiums earned	\$ 312,981,601	\$ 288,543,238
Administrative-services-only (ASO) fees	28,379,226	26,655,232
ASO claims reimbursed	492,950,855	411,674,431
Gross insurance revenues	<u>834,311,682</u>	<u>726,872,901</u>
ASO claims incurred	(492,950,855)	(411,674,431)
Reinsurance ceded	(11,654,419)	(6,732,838)
Net insurance revenues	<u>329,706,408</u>	<u>308,465,632</u>
Other revenues:		
Dental administrative income	25,990,440	23,368,175
Investment and other income	4,638,991	4,907,089
Net realized gain (loss) on sale of investments in available-for-sale securities	327,217	(449,324)
Net realized gain on sale of investments in common stocks	9,073,486	4,038,913
Net unrealized holding gain on common stocks	13,601,639	8,694,466
Loss on investment in NorthWinds Technology Solutions, LLC	(7,157,512)	(3,754,490)
Loss on investments in privately held companies	(343,831)	(1,525,437)
Net realized gain on sale of property and equipment	1,894,547	-
Contributions released from restrictions	15,400	3,609
Total other revenues	<u>48,040,377</u>	<u>35,283,001</u>
Total revenues	<u>377,746,785</u>	<u>343,748,633</u>
EXPENSES		
Risk claims incurred	252,282,490	209,680,447
Reinsurance recoveries	(9,293,165)	(4,450,604)
Increase (decrease) in aggregate reserves	7,000	(41,000)
Claims adjustment expenses incurred	24,359,724	22,850,261
Operating expenses	78,277,034	90,807,838
Reinsurance ceded commissions	(2,171,250)	(521,131)
Total expenses	<u>343,461,833</u>	<u>318,325,811</u>
Income before income tax expense	34,284,952	25,422,822
Income tax expense	<u>3,439,934</u>	<u>4,212,171</u>
Net income	<u>\$ 30,845,018</u>	<u>\$ 21,210,651</u>

See Notes to Consolidated Financial Statements.

DELTA DENTAL OF WISCONSIN, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Net income	<u>\$ 30,845,018</u>	<u>\$ 21,210,651</u>
Other comprehensive income (loss), net of tax:		
Net unrealized holding gain (loss) arising during period	(5,411,248)	4,991,557
Reclassification adjustment for gains (losses) included in net income	<u>264,475</u>	<u>(413,741)</u>
Other comprehensive income (loss)	<u>(5,146,773)</u>	<u>4,577,816</u>
Comprehensive income	<u>\$ 25,698,245</u>	<u>\$ 25,788,467</u>

See Notes to Consolidated Financial Statements.

DELTA DENTAL OF WISCONSIN, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF EQUITY
Years Ended December 31, 2021 and 2020

	Retained Earnings	Net Assets with Donor Restrictions	Accumulated Other Comprehensive Income	Total Equity
Balance, January 1, 2020	\$ 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
Endowment fund contributions	-	10,000,000	-	10,000,000
Contributions with donor restrictions	-	32,600	-	32,600
Contributions released from restrictions	-	(3,224)	-	(3,224)
Balance, December 31, 2020	241,326,115	10,115,098	7,801,588	259,242,801
Comprehensive income:				
Net income	30,845,018	-	-	30,845,018
Other comprehensive loss, net of tax of (\$522,416)	-	-	(5,146,773)	(5,146,773)
Contributions with donor restrictions	-	12,993	-	12,993
Contributions released from restrictions	-	(11,816)	-	(11,816)
Net investment income with donor restrictions	-	53,158	-	53,158
Net unrealized gain with donor restrictions	-	243,634	-	243,634
Balance, December 31, 2021	<u>\$ 272,171,133</u>	<u>\$ 10,413,067</u>	<u>\$ 2,654,815</u>	<u>\$ 285,239,015</u>

See Notes to Consolidated Financial Statements.

DELTA DENTAL OF WISCONSIN, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Net income	\$ 30,845,018	\$ 21,210,651
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation	351,976	724,004
Amortization of premium on debt securities	500,963	678,035
Deferred taxes	570,393	253,884
Net (gain) loss on sale of investments in available-for-sale securities	(327,217)	449,061
Net gain on sale of investments in common stocks	(9,073,486)	(4,038,913)
Net unrealized holding gain on common stock	(13,294,912)	(8,694,466)
Loss on investment in NorthWinds Technology Solutions, LLC	7,157,512	3,754,490
Loss on investments in privately held companies	343,831	1,525,437
(Gain) loss on sale of property and equipment	(1,779,735)	21,234
Net endowment fund contributions with donor restrictions	-	10,000,000
Net contributions with donor restrictions	54,335	29,376
Change in assets and liabilities:		
Uncollected premiums	(383,452)	2,959,846
Contracts receivable	952,907	(937,260)
Reinsurance recoverable on claims unpaid	44,500	44,500
Other assets	(625,931)	(1,549,134)
Claims unpaid and unpaid claims adjustment expenses	359,000	1,131,824
Deferred revenue and group refunds	359,333	1,327,412
Accrued expenses	(1,817,629)	4,798,441
Amounts retained for account of others	19,949,217	(13,517,241)
Payable to NorthWinds Technology Solutions, LLC	148,645	646,666
Supplemental retirement plan liability	(1,912,045)	(4,074,474)
Other liabilities	(97,910)	(611,730)
Net cash provided by operating activities	<u>32,325,313</u>	<u>16,131,643</u>
Cash flows from investing activities:		
Proceeds from sale of investments in available-for-sale securities	40,284,662	50,900,314
Proceeds from maturity of investments in available-for-sale securities	7,375,417	18,734,136
Proceeds from the sale of investments in common stocks	27,334,592	22,389,359
Purchase of investments in available-for-sale securities	(59,141,590)	(61,728,970)
Purchase of investments in common stocks	(19,601,720)	(21,148,374)
Purchase of investment in NorthWinds Technology Solutions, LLC	(9,250,000)	(5,500,000)
Purchase of investments in privately held securities	(900,000)	(786,675)
Proceeds from sale of property and equipment	5,094,290	46,620
Purchase of property and equipment	<u>(32,728,015)</u>	<u>(8,313,085)</u>
Net cash used for investing activities	<u>\$ (41,532,364)</u>	<u>\$ (5,406,675)</u>

See Notes to Consolidated Financial Statements.

DELTA DENTAL OF WISCONSIN, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from financing activities:		
Construction loan	\$ 16,098,549	\$ -
Net cash provided by financing activities	<u>16,098,549</u>	<u>-</u>
Net increase in cash, cash equivalents, and restricted cash	6,891,498	10,724,968
Cash, cash equivalents, and restricted cash, beginning of year	<u>37,827,421</u>	<u>27,102,453</u>
Cash, cash equivalents, and restricted cash, end of year	<u>\$ 44,718,919</u>	<u>\$ 37,827,421</u>
Supplemental disclosures of cash flows information:		
Cash payments for income taxes	\$ 1,600,000	\$ 3,050,000
Supplemental schedule of noncash investing and financing activities:		
Change in unrealized holding gains (losses) on available-for-sale securities, net of taxes	(5,146,773)	4,577,816

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 nine 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.

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, 2021 and 2020.

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.

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 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), a dental service organization owned by various Delta Dental companies (Link DDS), and a venture capital LLP that invests in dental and healthcare companies (SpringRock). These investments 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.

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

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 \$904,079 and \$0 for the years ended December 31, 2021 and 2020, respectively.

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.

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.

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.

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

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 from, and outsources claims administration to, EyeMed Vision Care, LLC (EyeMed). The Company issues insured policies, as well as provides services for ASO plans. The agreement with EyeMed is based on a per member, per month fee.

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 from Delta WI in both 2021 and 2020, which has been eliminated from these consolidated financial statements.

Net Assets with Donor-Restrictions. Delta WI contributed \$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.

Foundation Functional Expenses. Program expenses of \$2,031,368 and \$3,511,804 during 2021 and 2020, respectively, relate to grants to programs that extend access to dental care. General and administrative expenses of \$473,798 in 2021 include \$360,941 for employee expenses and \$112,857 for office and overhead expenses. General and administrative expenses of \$373,892 in 2020 include \$239,272 for employee expenses and \$134,620 for office and overhead expenses.

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

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 payments are made to the respective tax authorities.

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 \$1,564,000 and \$1,156,000 for the years ended December 31, 2021 and 2020, respectively.

Accounting Changes. 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.

Reclassifications. Certain amounts in the 2020 financial statements have been reclassified to conform to the 2021 classifications.

Premium Credits. Due to the impacts of the COVID-19 pandemic, 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. There was no such credit in 2021.

DELTA DENTAL OF WISCONSIN, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

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

Unusual or Infrequent Items. Due to the impacts of the COVID-19 pandemic, the Company 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.

Subsequent Events. Subsequent events were evaluated through March 24, 2022, which is the date the financial statements were available to be issued.

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

The cost and fair value of investments at December 31, 2021 and 2020, were as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>2021</u>				
Bonds (at amortized cost):				
U.S. Treasury	\$ 58,486,214	\$ 1,221,063	\$ (179,401)	\$ 59,527,876
Special revenue – issuer obligations	6,848,399	-	(194,388)	6,654,011
Corporate securities	54,905,992	1,870,534	(407,283)	56,369,243
Loan-backed securities	39,034,549	752,625	(198,972)	39,588,202
Total bonds	159,275,154	3,844,222	(980,044)	162,139,332
Common stocks – publicly traded	54,509,427	44,464,660	(3,443,556)	95,530,531
Total bonds and common stocks	<u>\$ 213,784,581</u>	<u>\$ 48,308,882</u>	<u>\$ (4,423,600)</u>	<u>\$ 257,669,863</u>
<u>2020</u>				
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>

DELTA DENTAL OF WISCONSIN, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

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, 2021 and 2020:

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<u>2021</u>						
U.S. Treasury	\$ 17,251,884	\$ (179,401)	\$ -	\$ -	\$ 17,251,884	\$ (179,401)
Special revenue - issuer obligations	6,654,011	(194,388)	-	-	6,654,011	(194,388)
Corporate securities	16,014,480	(318,033)	1,256,688	(89,250)	17,271,168	(407,283)
Loan-backed securities	13,400,734	(133,215)	1,962,566	(65,757)	15,363,300	(198,972)
Total bonds	53,321,109	(825,037)	3,219,254	(155,007)	56,540,363	(980,044)
Common stocks	8,727,228	(3,395,108)	1,934,071	(48,448)	10,661,299	(3,443,556)
	<u>\$ 62,048,337</u>	<u>\$ (4,220,145)</u>	<u>\$ 5,153,325</u>	<u>\$ (203,455)</u>	<u>\$ 67,201,662</u>	<u>\$ (4,423,600)</u>
<u>2020</u>						
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	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>

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

The amortized cost and fair value of bonds at December 31, 2021, 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.

	<u>Amortized Cost</u>	<u>Fair Value</u>
Due in one year or less	\$ 8,249,144	\$ 8,336,494
Due after one year through five years	63,419,101	63,700,524
Due after five years through ten years	50,879,125	51,672,701
Due after ten years	<u>36,727,784</u>	<u>38,429,613</u>
	<u>\$ 159,275,154</u>	<u>\$ 162,139,332</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:

	<u>2021</u>	<u>2020</u>
Gains	\$ 328,035	\$ 455,071
Losses	<u>(818)</u>	<u>(904,395)</u>
Net realized gain (loss) on sale of investments in available-for-sale securities	<u>\$ 327,217</u>	<u>\$ (449,324)</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.

Cash equivalents: Comprised of actively traded money market funds that have daily quoted net asset values.

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, 2021 and 2020:

<u>Type of Financial Instrument</u>	<u>Aggregate Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>December 31, 2021</u>				
Bonds	\$ 162,139,332	\$ 59,527,877	\$ 102,611,455	\$ -
Common stocks	95,530,531	95,530,531	-	-
Cash equivalents	7,208,543	7,208,543	-	-
<u>December 31, 2020</u>				
Bonds	\$ 159,653,924	\$ 48,942,192	\$ 110,711,732	\$ -
Common stocks	77,498,208	77,498,208	-	-
Cash equivalents	5,106,086	5,106,086	-	-

Changes in the net unrealized holding gain on investments in available-for-sale securities during the years ended December 31, 2021 and 2020, reported as a separate component of equity, are as follows:

	<u>2021</u>	<u>2020</u>
Balance, beginning	\$ 7,801,588	\$ 3,223,772
Change in:		
Net unrealized holding gain	(5,669,189)	5,050,094
Deferred tax effect related to net unrealized holding gain	<u>522,416</u>	<u>(472,278)</u>
Balance, ending	<u>\$ 2,654,815</u>	<u>\$ 7,801,588</u>

Investment Commitments. The Company has a commitment of \$1,650,000 to SpringRock.

Note 3 ~ Investment in NorthWinds Technology Solutions, LLC

Effective July 1, 2019, the Company entered into a joint venture, NorthWinds with Delta Dental of Illinois (DDIL). The Company and DDIL each have a 50 percent share of Northwinds, an information technology (IT) service organization which provides comprehensive IT solutions for both organizations. As part of the initial capital infusion, the Company transferred computer hardware and software, in addition to \$2,000,000. The assets transferred had a book value of \$385,875 prior to the transfer, but were subsequently valued at \$9,250,000, resulting in a realized gain of \$8,864,125.

Under the equity method of accounting, the Company's share of NorthWinds' equity was \$11,627,912 and \$9,535,422 at December 31, 2021 and 2020, respectively, with losses recognized of \$7,157,512 and \$3,754,490 in 2021 and 2020, respectively. NorthWinds has assets of approximately \$27,263,000, liabilities of approximately \$4,007,000, and owners' equity of approximately \$23,256,000, as of December 31, 2021.

Effective January 1, 2022, the joint venture with NorthWinds was amended to add Corvesta (parent company of Delta Dental of Virginia) as an owner, resulting in each company holding a one third share. The Company contributed \$9,250,000 on December 31, 2021, per the new agreement. The rate structure for operating and modernization have been established such that no further capital commitments will be required. In the agreement, KeySpring, software developed and owned by Corvesta, will be transferred to NorthWinds and will eventually become the software used by the Company and DDIL.

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>2021</u>	<u>2020</u>
IT services billed by NorthWinds	\$ 13,596,915	\$ 14,257,065
Overhead and payroll allocated to NorthWinds	191,000	217,820

Note 4 ~ 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 2021 and 2020 that resulted in default.

All securities acquired during 2021 and 2020, 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 \$32,089,387 and \$569 as of December 31, 2021 and 2020, respectively.

Note 5 ~ Property and Equipment

The major classes of property and equipment and related accumulated depreciation and amortization as of December 31, 2021 and 2020, are as follows:

	2021	2020
Land	\$ 1,335,424	\$ 1,335,424
Building and building improvements	18,378	-
Construction in progress	38,379,260	8,186,463
Leasehold improvements	556,952	556,952
Furniture and equipment	3,765,427	2,151,034
Vehicles	785,724	744,107
	<u>44,841,165</u>	<u>12,973,980</u>
Accumulated depreciation and amortization	<u>(1,612,259)</u>	<u>(1,998,356)</u>
Net property and equipment	<u>\$ 43,228,906</u>	<u>\$ 10,975,624</u>

Depreciation expense was \$351,972 and \$724,004 for the years ended December 31, 2021 and 2020, respectively.

Construction In Progress. The Company's Board of Directors approved a plan to construct a corporate office in a new location for up to \$44,000,000. The building site of 15 acres was purchased for \$1,335,424 in 2019, and the building will be completed in the first quarter of 2022. The Company recorded construction in progress of \$38,379,260 and \$8,186,463 at December 31, 2021 and 2020, respectively. No depreciation has been recorded as it has not been placed into service.

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. The construction portion of the loan started in September 2021, with an outstanding balance drawn of \$16,098,549 on December 31, 2021. Total capitalized interest paid and accrued on the loan for December 31, 2021, was \$56,860.

The loan rate during the construction period (up to 24 months) will be 1.75 percent greater than 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 greater than 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.

Sales of Real Estate. On September 17, 2021, the Company sold their home office for a gain of \$2,098,106. The total proceeds received were \$4,633,148.

During 2021, the Company also sold two pieces of real estate adjacent to the home office for a gain of \$52,949. The total proceeds received on the sales were \$443,443. The Company recorded \$269,348 of impairment on the two real estate assets sold during 2021, prior to the sale.

DELTA DENTAL OF WISCONSIN, INC. AND AFFILIATES
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Note 6 ~ Liabilities for Claims Unpaid

Activity in the liabilities for claims unpaid (including claims paid for ASO plans) for the years ended December 31, 2021 and 2020, is summarized as follows:

	<u>2021</u>	<u>2020</u>
Balance, beginning of year	\$ 12,943,000	\$ 11,967,176
Less reinsurance recoverable	<u>262,000</u>	<u>306,500</u>
Net balance at January 1	<u>12,681,000</u>	<u>11,660,676</u>
Incurred related to:		
Current year	736,625,130	616,562,996
Prior years	<u>(684,950)</u>	<u>341,278</u>
Total incurred	<u>735,940,180</u>	<u>616,904,274</u>
Paid related to:		
Current year	723,577,631	603,881,996
Prior years	<u>11,996,049</u>	<u>12,001,954</u>
Total paid	<u>735,573,680</u>	<u>615,883,950</u>
Net balance at December 31	13,047,500	12,681,000
Plus reinsurance recoverables	<u>217,500</u>	<u>262,000</u>
Balance, end of year	<u>\$ 13,265,000</u>	<u>\$ 12,943,000</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 (\$684,950) and \$341,278 in 2021 and 2020, respectively.

DELTA DENTAL OF WISCONSIN, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 6 ~ Liabilities for Claims Unpaid (Continued)

The following is information about incurred and paid claims development as of December 31, 2021, as well as the total of incurred-but-not-reported (IBNR) liabilities:

Cumulative Incurred Claims (\$000's)						As of 12/31/2021
Year	2017	2018	2019	2020	2021	IBNR
2017	\$ 198,941	\$ 198,147	\$ 198,147	\$ 198,147	\$ 198,147	
2018		209,949	209,370	209,370	209,370	
2019			220,166	220,506	220,506	
2020				180,252	204,203	
2021					243,677	7,121
					Total	<u>\$ 1,075,903</u>
Cumulative Paid Claims (\$000's)						
Year	2017	2018	2019	2020	2021	
2017	\$ 189,104	\$ 198,147	\$ 198,147	\$ 198,147	\$ 198,147	
2018		200,399	209,370	209,370	209,370	
2019			208,505	220,506	220,506	
2020				192,207	204,203	
2021					230,630	
					Total	<u>1,062,856</u>
					Claims unpaid, net of reinsurance recoverable	<u>\$ 13,047</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, 2021 and 2020

Note 7 ~ 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, 2021 and 2020, due to the following:

	<u>2021</u>	<u>2020</u>
Expected tax provision at state income tax rate of 7.9 percent	\$ 2,241,912	\$ 1,803,782
Expected tax provision at blended federal and state income tax rate of 27.2 percent (subsidiary only)	2,326,816	2,315,017
Increase (decrease) in income taxes resulting from:		
Change in deferred tax valuation allowance	(890,852)	526,066
Non-deductible ACA industry fee	-	244,890
Other - net	<u>(237,942)</u>	<u>(677,584)</u>
Income tax expense	<u>\$ 3,439,934</u>	<u>\$ 4,212,171</u>

The items that gave rise to the deferred tax assets (liabilities) for the years ended December 31, 2021 and 2020, were as follows:

	<u>2021</u>	<u>2020</u>
Deferred tax assets:		
Claims unpaid and unpaid claims adjustment expenses	\$ 17,104	\$ 17,413
Premiums received in advance	178,955	168,325
Deferred compensation	348,949	500,001
Charitable contribution carryforward	1,833,843	2,101,840
Unrealized loss on investments	5,474,993	6,097,848
Other	<u>767,252</u>	<u>539,398</u>
Total deferred tax assets	8,621,096	9,424,825
Valuation allowance	(7,308,836)	(8,199,688)
Deferred tax liabilities:		
Unrealized gains on investments	(2,623,856)	(2,505,069)
Other	<u>(24,499)</u>	<u>(8,186)</u>
	<u>(2,648,355)</u>	<u>(2,513,255)</u>
Net deferred tax liabilities	<u>\$ (1,336,095)</u>	<u>\$ (1,288,118)</u>

Note 7 ~ Income Taxes (Continued)

The income tax provision for the years ended December 31, 2021 and 2020, consist of the following:

	<u>2021</u>	<u>2020</u>
Current expense – Delta WI	\$ 881,313	\$ 1,965,937
Current expense – subsidiary	1,988,228	1,992,350
Deferred tax expense	<u>570,393</u>	<u>253,884</u>
Total income tax provision	<u>\$ 3,439,934</u>	<u>\$ 4,212,171</u>

Federal income taxes which would be available for recoupment in the event of future tax losses are approximately \$1,391,000 and \$1,417,000 for 2021 and 2020, respectively.

The subsidiary's federal income tax returns for 2018 – 2021 and state tax returns for 2017 – 2021, 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, 2021, the Company had not identified any material loss contingencies arising from uncertain tax positions.

Note 8 ~ Retirement Plans

Qualified Retirement Plan. The Company sponsors a defined contribution plan, the Delta Dental of Wisconsin, Inc. Retirement Plan. 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 \$1,372,547 in 2021 and \$1,414,047 in 2020.

Employees may elect to contribute from 1 percent to 75 percent of his/her pre-tax salary up to Internal Revenue Service limits. In 2021 and 2020, the Company matched 100 percent of the employees' contributions up to \$4,250 per employee. The Company's contribution expenses were \$939,235 for 2021 and \$858,156 for 2020.

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.

Note 8 ~ 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>2021</u>	<u>2020</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 6,329,127	\$ 10,403,601
Interest cost	117,089	326,530
Service cost	865,255	1,121,021
Actuarial (gain) loss	(222,295)	495,930
Benefits paid	<u>(2,672,094)</u>	<u>(6,017,955)</u>
Benefit obligation at end of year	<u>\$ 4,417,082</u>	<u>\$ 6,329,127</u>
Funded status (amount recognized on balance sheets)	<u>\$ (4,417,082)</u>	<u>\$ (6,329,127)</u>
Components of net periodic benefit cost:		
Service cost	\$ 865,255	\$ 1,121,021
Interest cost	<u>117,089</u>	<u>326,530</u>
Total net periodic benefit cost	<u>\$ 982,344</u>	<u>\$ 1,447,551</u>
Assumptions used to determine benefit obligation and net periodic benefit cost:		
Discount rate	2.52%	1.85%
Rate of compensation increase	3.50%	3.50%

Projected benefit payments are as follows:

2022	\$ 280,731
2023	-
2024	-
2025	1,052,583
2026	-
After	3,083,768

Note 9 ~ Reinsurance Assumed

The Company has an agreement 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, 2021 and 2020, 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>2021</u>	<u>2020</u>
Premiums earned	\$ 11,668,043	\$ 10,923,731
Claims incurred	10,111,621	9,877,693
Funds held by the reinsured company	520,938	492,014

Note 10 ~ Transactions with EyeMed

The Company rents a vision network from, and outsources claim administration to, EyeMed. In 2021, the Company and EyeMed also entered into a reinsurance agreement for the state of Wisconsin vision plan. Transactions related to these agreements are as follows:

	<u>2021</u>	<u>2020</u>
Vision network and claims administration	\$ 1,272,585	\$ 1,023,819
Reinsurance agreement transactions:		
Premium ceded	\$ 5,669,603	\$ -
Claims ceded	4,836,578	-

Note 11 ~ 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>	
2022	\$ 614,495
2023	475,581
2024	204,181
2025	74,438
2026	<u>76,671</u>
	<u>\$ 1,445,366</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 \$471,469 and \$452,838 for the years ended December 31, 2021 and 2020, respectively.

Note 12 ~ 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 2021 and 2020, were as follows:

	<u>2021</u>	<u>2020</u>
Statutory net income	\$ 2,281,925	\$ 11,879,672
Statutory surplus	254,865,170	221,843,959

Statutory net income and surplus for Wyssta Insurance Company, Inc. in 2021 and 2020, were as follows:

	<u>2021</u>	<u>2020</u>
Statutory net income	\$ 2,604,899	\$ 2,077,124
Statutory surplus	15,053,456	13,391,108

Note 12 ~ Statutory Net Income and Surplus (Continued)

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, 2021 and 2020, Delta WI and Wyssta Insurance Company, Inc. surplus exceeded the minimum levels required by the OCI and RBC standards.

Note 13 ~ Contingencies

The Company, along with the Delta Dental Plans Association (DDPA), DeltaUSA, and the other independent DDPA member companies, is defending a multidistrict litigation consolidated before a single federal district court for pretrial proceedings. The plaintiffs, representing purported classes of dental providers, allege that various association member company licensing standards violate federal antitrust laws. The Company believes the claims are meritless and continues to vigorously defend the case. At this point in the proceedings, the Company cannot reasonably estimate the range or amount of any potential loss.

Note 14 ~ Endowment Fund

In 2021, Delta WI funded \$10,000,000 to a donor-restricted endowment fund with the objective to ensure the Foundation will be able to continue its core programs and operations should the annual donation from Delta WI be insufficient to meet the strategic goals of the Foundation. The Foundation considers the endowment fund to be underwater if it falls below \$10,000,000, and should it fall below this original value, the use of any of the funds will require Delta WI Board approval.

The primary objective will be to provide growth of principal and income of the endowment fund and it must be invested with the care, skill, and diligence that a prudent person acting in this capacity would use to comply with Wisconsin state statutes as it applies to insurance companies. Investments should not conflict with the Delta WI mission of improving oral health and wellness. The investment returns will be measured against those of a target portfolio consisting of 32.5 percent equities, 62.5 percent fixed income securities, and 5 percent cash equivalents.

The Foundation Board can approve up to 5 percent of the total endowment fund for use. The annual endowment spend may exceed 5 percent only with Delta WI Board approval. The intent of the endowment is to only use the income from the fund. The Foundation Board will review the endowment fund balance and investment income quarterly and determine if any funds are available and/or required for operating the Foundation or to meet the Foundation's Strategic Plan established by the Foundation Board. As of December 31, 2021, there were no endowment funds released.

Note 14 ~ Endowment Fund (Continued)

The Foundation had the following endowment fund activities:

	<u>2021</u>	<u>2020</u>
Endowment net assets, beginning of year	\$ 10,000,000	\$ -
Contribution	-	10,000,000
Investment income	65,854	-
Investment fees	(12,696)	-
Net unrealized gain	<u>243,634</u>	<u>-</u>
Endowment net assets, end of year	<u><u>\$ 10,296,792</u></u>	<u><u>\$ 10,000,000</u></u>

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, 2021, and our report thereon dated March 24, 2022, 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 24, 2022

DELTA DENTAL OF WISCONSIN, INC. AND AFFILIATES
CONSOLIDATING BALANCE SHEET
December 31, 2021 (with Comparative Totals for 2020)

					Consolidated	
	Delta Dental of Wisconsin, Inc.	Wyssta, Inc. and Subsidiaries	Delta Dental of Wisconsin Foundation, Inc.	Eliminations	2021	2020
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 22,397,759	\$ 15,595,732	\$ 6,725,428	\$ -	\$ 44,718,919	\$ 27,118,892
Restricted cash	-	-	-	-	-	10,708,529
Uncollected premiums	2,447,656	124,447	-	-	2,572,103	2,188,651
Contracts receivable	-	2,970,257	-	-	2,970,257	3,923,164
Reinsurance recoverable on claims unpaid	217,500	-	-	-	217,500	262,000
Other assets	5,580,647	428,373	1,483	-	6,010,503	5,384,572
Receivable from parent and affiliate	-	2,530,064	-	(2,530,064)	-	-
Total current assets	30,643,562	21,648,873	6,726,911	(2,530,064)	56,489,282	49,585,808
Long-lived assets held for sale	7,242	-	-	-	7,242	3,199,037
Property and equipment, net	43,228,906	-	-	-	43,228,906	10,975,624
Investments in available-for-sale securities	145,762,993	9,721,247	6,655,092	-	162,139,332	159,653,924
Investments in common stocks	88,241,005	3,892,726	3,396,800	-	95,530,531	77,498,208
Investment in subsidiary	28,425,358	-	-	(28,425,358)	-	-
Investment in NorthWinds	11,627,910	-	-	-	11,627,910	9,535,422
Investments in privately held companies	3,962,096	613,894	-	-	4,575,990	4,019,819
Total assets	<u>\$ 351,899,072</u>	<u>\$ 35,876,740</u>	<u>\$ 16,778,803</u>	<u>\$ (30,955,422)</u>	<u>\$ 373,599,193</u>	<u>\$ 314,467,842</u>
LIABILITIES AND EQUITY						
Current liabilities:						
Claims unpaid	\$ 12,715,000	\$ 550,000	\$ -	\$ -	\$ 13,265,000	\$ 12,943,000
Unpaid claims adjustment expenses	890,000	52,000	-	-	942,000	905,000
Deferred revenue and group refunds	9,915,221	731,383	-	-	10,646,604	10,287,271
Accrued expenses	8,923,099	4,089,171	1,320,999	-	14,333,269	16,150,898
Amounts retained for account of others	25,470,995	-	-	-	25,470,995	5,521,778
Payable to NorthWinds	932,108	610,329	-	-	1,542,437	1,393,792
Other liabilities	588,878	-	-	-	588,878	406,057
Payable to subsidiary and affiliate	1,123,166	1,335,800	71,098	(2,530,064)	-	-
Total current liabilities	60,558,467	7,368,683	1,392,097	(2,530,064)	66,789,183	47,607,796
Construction loan	16,098,549	-	-	-	16,098,549	-
Supplemental retirement plan liability	4,136,351	-	-	-	4,136,351	6,329,127
Deferred tax liabilities	1,253,396	82,699	-	-	1,336,095	1,288,118
Total liabilities	<u>82,046,763</u>	<u>7,451,382</u>	<u>1,392,097</u>	<u>(2,530,064)</u>	<u>88,360,178</u>	<u>55,225,041</u>
Equity:						
Retained earnings	267,197,513	28,312,058	4,973,639	(28,312,077)	272,171,133	241,326,115
Net assets with donor restrictions	-	-	10,413,067	-	10,413,067	10,115,098
Accumulated other comprehensive income	2,654,796	113,300	-	(113,281)	2,654,815	7,801,588
Total equity	<u>269,852,309</u>	<u>28,425,358</u>	<u>15,386,706</u>	<u>(28,425,358)</u>	<u>285,239,015</u>	<u>259,242,801</u>
Total liabilities and equity	<u>\$ 351,899,072</u>	<u>\$ 35,876,740</u>	<u>\$ 16,778,803</u>	<u>\$ (30,955,422)</u>	<u>\$ 373,599,193</u>	<u>\$ 314,467,842</u>

DELTA DENTAL OF WISCONSIN, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF INCOME
Year ended December 31, 2021 (with Comparative Totals for 2020)

	Delta Dental of Wisconsin, Inc.	Wyssta, Inc.	Foundation	Eliminations	Consolidated	
					2021	2020
REVENUES						
Insurance revenues:						
Risk premiums earned	\$ 285,365,220	\$ 27,616,381	\$ -	\$ -	\$ 312,981,601	\$ 288,543,238
ASO fees	28,313,262	65,964	-	-	28,379,226	26,655,232
ASO claims reimbursed	492,896,722	54,133	-	-	492,950,855	411,674,431
Gross insurance revenues	806,575,204	27,736,478	-	-	834,311,682	726,872,901
ASO claims incurred	(492,896,722)	(54,133)	-	-	(492,950,855)	(411,674,431)
Reinsurance ceded	(5,984,816)	(5,669,603)	-	-	(11,654,419)	(6,732,838)
Net insurance revenues	307,693,666	22,012,742	-	-	329,706,408	308,465,632
Other revenues:						
Dental administrative income	3,300,084	25,637,068	-	(2,946,712)	25,990,440	23,368,175
Investment and other income	4,397,748	241,243	-	-	4,638,991	4,907,089
Net realized gain (loss) on sale of investments in available-for-sale securities	315,886	11,331	-	-	327,217	(449,324)
Net realized gain on sale of investments in common stocks	8,893,978	179,508	-	-	9,073,486	4,038,913
Net unrealized holding gain on common stocks	12,314,273	1,287,366	-	-	13,601,639	8,694,466
Loss on investment in NorthWinds	(7,157,512)	-	-	-	(7,157,512)	(3,754,490)
Gain (loss) on investment in privately held companies	(395,057)	51,226	-	-	(343,831)	(1,525,437)
Net realized gain on sale of property and equipment	1,894,547	-	-	-	1,894,547	-
Contributions released from restrictions	-	-	4,515,400	(4,500,000)	15,400	3,609
Income (loss) from subsidiary	6,552,934	-	-	(6,552,934)	-	-
Total other revenues	30,116,881	27,407,742	4,515,400	(13,999,646)	48,040,377	35,283,001
Total revenues	337,810,547	49,420,484	4,515,400	(13,999,646)	377,746,785	343,748,633
EXPENSES						
Risk claims incurred	232,510,695	19,771,795	-	-	252,282,490	209,680,447
Reinsurance recoveries	(4,456,587)	(4,836,578)	-	-	(9,293,165)	(4,450,604)
Increase (decrease) in aggregate reserves	7,000	-	-	-	7,000	(41,000)
Claims adjustment expenses incurred	23,005,006	1,354,718	-	-	24,359,724	22,850,261
Operating expenses	57,809,476	25,409,104	2,505,166	(7,446,712)	78,277,034	90,807,838
Reinsurance ceded commissions	(1,338,225)	(833,025)	-	-	(2,171,250)	(521,131)
Total expenses	307,537,365	40,866,014	2,505,166	(7,446,712)	343,461,833	318,325,811
Income before income tax expense	30,273,182	8,554,470	2,010,234	(6,552,934)	34,284,952	25,422,822
Income tax expense	1,438,398	2,001,536	-	-	3,439,934	4,212,171
Net income	\$ 28,834,784	\$ 6,552,934	\$ 2,010,234	\$ (6,552,934)	\$ 30,845,018	\$ 21,210,651