

**WYSSTA, INC. AND SUBSIDIARIES**  
(A WHOLLY-OWNED SUBSIDIARY OF DELTA DENTAL OF WISCONSIN, INC.)

**CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2020 and 2019



CPAs • ADVISORS • CONSULTANTS

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

To the Board of Directors and Stockholder  
Wyssta, Inc. and Subsidiaries  
Stevens Point, Wisconsin

We have audited the accompanying consolidated financial statements of Wyssta, Inc. and Subsidiaries (the Company), which are comprised of the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, stockholder's 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 consolidated 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 Company'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 Company'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 Wyssta, Inc. and Subsidiaries as of December 31, 2020 and 2019, and the results of their operations and their 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

**WYSSTA, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 11,010,233	\$ 7,217,953
Investment income due and accrued	52,731	59,308
Uncollected premiums	20,040	67,800
Contracts receivable	3,923,164	2,985,904
Receivable from Delta Dental of Wisconsin, Inc.	-	391,614
Prepaid expenses	548,842	133,434
Federal income tax recoverable	237,907	-
Total current assets	15,792,917	10,856,013
Investments in available-for-sale securities	9,615,938	9,068,539
Investments in common stocks	2,649,639	1,142,182
Investment in Healthentic, Inc.	181,606	76,321
Investment in Encara Corporation	381,062	434,593
Total assets	<u>\$ 28,621,162</u>	<u>\$ 21,577,648</u>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
Current liabilities:		
Claims unpaid	\$ 363,000	\$ 385,000
Unpaid claims adjustment expenses	24,000	25,000
Accounts payable	3,747,180	2,352,569
Payable to Delta Dental of Wisconsin, Inc.	180,905	-
Payable to NorthWinds Technology Consulting, LLC	365,583	801,472
Federal income tax payable	-	90,936
Deferred revenue	613,225	493,237
Total current liabilities	5,293,893	4,148,214
Deferred tax liabilities	174,392	91,253
Total liabilities	5,468,285	4,239,467
Stockholder's equity:		
Common stock, no par value; 100,000 shares authorized; 19,270 shares issued and outstanding	\$ -	\$ -
Additional paid-in capital	29,200,000	29,200,000
Retained deficit	(6,440,876)	(11,979,745)
Accumulated other comprehensive income	393,753	117,926
Total stockholder's equity	23,152,877	17,338,181
Total liabilities and stockholder's equity	<u>\$ 28,621,162</u>	<u>\$ 21,577,648</u>

See Notes to Consolidated Financial Statements.

**WYSSTA, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>REVENUES</b>		
Dental administrative income	<u>\$ 23,058,971</u>	<u>\$ 19,145,997</u>
Insurance revenues:		
Risk premiums earned	<u>18,870,327</u>	17,581,860
Administrative-services-only (ASO) administrative fees	<u>67,161</u>	78,187
ASO claims reimbursed	<u>54,310</u>	64,719
Gross insurance revenues	<u>18,991,798</u>	17,724,766
ASO claims incurred	<u>(54,310)</u>	(64,719)
Net insurance revenues	<u>18,937,488</u>	17,660,047
Investment revenues:		
Interest and dividend income	<u>243,887</u>	245,105
Net realized loss on sale of available-for-sale securities	<u>(10,322)</u>	(781)
Net unrealized holding gain on investments in common stocks	<u>1,478,052</u>	172,905
Net realized gain (loss) on sale of common stocks	<u>(11,276)</u>	11,787
Gain on investment in Healthentic, Inc.	<u>105,284</u>	136,282
Gain (loss) on investment in Encara Corporation	<u>(53,531)</u>	29,590
Total investment revenues	<u>1,752,094</u>	594,888
Total revenues	<u>43,748,553</u>	37,400,932
<b>EXPENSES</b>		
Risk claims incurred	<u>12,091,475</u>	12,007,530
Claims adjustment and vision administration fee	<u>1,077,129</u>	966,889
Payroll and benefits	<u>10,302,809</u>	10,104,695
Professional and contract services	<u>7,542,458</u>	5,730,056
Computer hardware and software	<u>1,299,214</u>	1,545,333
Commissions	<u>1,159,211</u>	1,108,391
Telephone	<u>239,099</u>	490,739
Allocated costs	<u>616,627</u>	1,017,009
Office	<u>309,790</u>	218,008
Other	<u>599,652</u>	364,069
Total expenses	<u>35,237,464</u>	33,552,719
Net income before income tax expense	<u>8,511,089</u>	3,848,213
Income tax expense	<u>1,972,220</u>	1,055,587
Net income	<u>\$ 6,538,869</u>	<u>\$ 2,792,626</u>

See Notes to Consolidated Financial Statements.

**WYSSTA, INC. AND SUBSIDIARIES**  
**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>\$ 6,538,869</u>	<u>\$ 2,792,626</u>
Other comprehensive income, net of tax:		
Unrealized holding gain arising during the period	<b>283,339</b>	198,287
Reclassification adjustment for losses included in net income	<u>(7,512)</u>	<u>(569)</u>
Other comprehensive income	<u><b>275,827</b></u>	<u>197,718</u>
Comprehensive income	<u><b>\$ 6,814,696</b></u>	<u><b>\$ 2,990,344</b></u>

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See Notes to Consolidated Financial Statements.

**WYSSTA, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY**  
Years Ended December 31, 2020 and 2019

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	Common Stock	Additional Paid-In Capital	Retained Deficit	Accumulated Other Comprehensive Gain (Loss)	Total Stockholder's Equity
Balance, January 1, 2019	\$ -	\$ 29,200,000	\$ (13,772,371)	\$ (79,792)	\$ 15,347,837
Comprehensive income:					
Net income	-	-	2,792,626	-	2,792,626
Other comprehensive income	-	-	-	197,718	197,718
Dividend to stockholder	-	-	(1,000,000)	-	(1,000,000)
Balance, December 31, 2019	-	29,200,000	(11,979,745)	117,926	17,338,181
Comprehensive income:					
Net income	-	-	6,538,869	-	6,538,869
Other comprehensive income	-	-	-	275,827	275,827
Dividend to stockholder	-	-	(1,000,000)	-	(1,000,000)
Balance, December 31, 2020	<u>\$ -</u>	<u>\$ 29,200,000</u>	<u>\$ (6,440,876)</u>	<u>\$ 393,753</u>	<u>\$ 23,152,877</u>

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See Notes to Consolidated Financial Statements.



**WYSSTA, INC. AND SUBSIDIARIES**  
**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	\$ 6,538,869	\$ 2,792,626
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Amortization of premiums on debt securities	38,334	21,106
Deferred taxes	(20,130)	47,101
Net (gain) loss on the sale of available-for-sale securities	10,322	781
Net unrealized holding gain on investments in common stocks	(1,478,052)	(172,905)
Gain on investment in Healthentic, Inc.	(105,284)	(136,282)
Net (gain) loss on sale of common stocks	11,276	(11,787)
(Gain) loss on investment in Encara Corporation	53,531	(29,590)
Change in assets and liabilities:		
Investment income due and accrued	6,577	969
Uncollected premiums	47,760	(35,561)
Contracts receivable	(937,260)	(944,522)
Receivable from (payable to) Delta Dental of Wisconsin, Inc.	572,519	(397,209)
Prepaid expenses	(415,406)	66,819
Federal income tax recoverable (payable)	(328,843)	206,090
Claims unpaid	(22,000)	(28,000)
Unpaid claims adjustment expenses	(1,000)	(1,845)
Accounts payable	1,394,608	539,251
Payable to NorthWinds Technology Consulting, LLC	(435,889)	801,472
Deferred revenue	119,988	62,710
Net cash provided by operating activities	<u>5,049,920</u>	<u>2,781,224</u>
Cash flows from investing activities:		
Proceeds from sale of investments in available-for-sale securities	3,383,413	3,584,278
Purchase of investments in available-for-sale securities	(3,641,053)	(4,717,122)
Net cash used for investing activities	<u>(257,640)</u>	<u>(1,132,844)</u>
Cash flows from financing activities:		
Dividends to stockholder	(1,000,000)	(1,000,000)
Net cash used for financing activities	<u>(1,000,000)</u>	<u>(1,000,000)</u>
Net increase in cash and cash equivalents	3,792,280	648,380
Cash and cash equivalents, beginning of year	7,217,953	6,569,573
Cash and cash equivalents, end of year	<u>\$ 11,010,233</u>	<u>\$ 7,217,953</u>
Supplemental disclosures of cash flow information:		
Cash payments for income taxes	<u>\$ 1,748,445</u>	<u>\$ 576,927</u>
Supplemental schedule of noncash investing and financing activities:		
Change in unrealized holding gains on available-for-sale securities, net of taxes	<u>\$ 275,827</u>	<u>\$ 197,718</u>

See Notes to Consolidated Financial Statements.

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

**Nature of Business.** Wyssta, Inc. was formed in 2005 to operate as a holding company. Wyssta, Inc. is a wholly-owned subsidiary of Delta Dental of Wisconsin, Inc. (Delta WI) and purchases administrative services from them.

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 and began writing business in 2006. 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.

A summary of Wyssta, Inc.'s significant accounting policies follows.

**Principles of Consolidation.** The consolidated financial statements include the accounts of Wyssta, Inc. and its wholly-owned subsidiaries: Wyssta Insurance Company, Inc., Wyssta Services, Inc., and Wyssta Investments, Inc. (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:

- The liabilities for claims unpaid and unpaid claims adjustment expenses.
- The assumptions regarding the other-than-temporary impairment analysis of the investment portfolio.

**Cash and Cash Equivalents.** For purposes of reporting cash flows, the Company considers cash in checking accounts and money market funds to be cash and cash equivalents. 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 stockholder's equity. Unrealized holding gains or losses on common stocks are reported 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.

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

The Company also holds minority interests in a development stage biotechnology company (Armata Pharmaceuticals, Inc.), a dental analytics company (Healthentic, Inc.), and a company that performs marketing services for various Delta Dental companies with respect to their individual dental insurance products, including Delta WI (Encara Corporation). Healthentic, Inc. and Encara Corporation are 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.

Declines in fair value that 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 objective and subjective 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 the years ended December 31, 2020 and 2019, 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 that the Company has the ability to access.
- 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.** Contracts receivable are stated at the invoice amount. The carrying amount of contracts receivable is 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 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 balances was \$0 at both December 31, 2020 and 2019.

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

**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.

**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.

**Dental Administrative Income.** The Company receives dental administrative income based on the number of subscribers/policies administered, as well as based on the number of inside sales representatives contracted to serve the customers. Fees are billed, due, and recognized monthly at contracted rates. This recognition pattern aligns with satisfaction of performance obligations 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 and First American Administrators, Inc. The Company issues insured policies, as well as administrative-services-only (ASO) plans. The agreement with EyeMed Vision Care, LLC and First American Administrators, Inc. is based on a per member, per month fee.

**Income Taxes.** The Company files a consolidated federal income tax return. For Wisconsin income tax purposes, the Company is included in a consolidated return with Delta WI. 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 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.

**Significant Contracts.** The Company provides dental administration services to ten customers. The majority of customers are contracted through December 31, 2021, and have penalty provisions for early termination. The three largest external customers make up 54 percent of the Company's dental administrative income, with the largest consisting of 21 percent of that income.

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

**Accounting Changes.** In 2019, the Company adopted *Accounting Standards Update 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 GAAP. 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 *Accounting Standards Update 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. The adoption did not have a material impact on the Company's financial statements.

**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 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 \$816,795. The Credit was offset against risk premiums earned.

**WYSSTA, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2020 and 2019

**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:

	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<b><u>2020</u></b>				
Bonds (at amortized cost):				
U.S. Treasury and U.S. government agencies	\$ 2,361,217	\$ 208,062	\$ -	\$ 2,569,279
Special revenue	300,000	165	-	300,165
Industrial and miscellaneous	4,805,499	281,616	-	5,087,115
Loan-backed securities	<u>1,608,047</u>	<u>51,362</u>	<u>(30)</u>	<u>1,659,379</u>
Total bonds	9,074,763	541,205	(30)	9,615,938
Common stocks	<u>998,682</u>	<u>1,655,252</u>	<u>(4,295)</u>	<u>2,649,639</u>
	<u>\$ 10,073,445</u>	<u>\$ 2,196,457</u>	<u>\$ (4,325)</u>	<u>\$ 12,265,577</u>
<b><u>2019</u></b>				
Bonds (at amortized cost):				
U.S. Treasury and U.S. government agencies	\$ 3,820,121	\$ 61,774	\$ (9,817)	\$ 3,872,078
Industrial and miscellaneous	4,101,538	99,927	(37)	4,201,428
Loan-backed securities	<u>984,803</u>	<u>10,231</u>	<u>-</u>	<u>995,034</u>
Total bonds	8,906,462	171,931	(9,854)	9,068,539
Common stocks	<u>969,276</u>	<u>175,608</u>	<u>(2,703)</u>	<u>1,142,182</u>
	<u>\$ 9,875,738</u>	<u>\$ 347,539</u>	<u>\$ (12,557)</u>	<u>\$ 10,210,721</u>

**WYSSTA, INC. AND SUBSIDIARIES**  
**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>						
Loan-backed securities	\$ 90,608	\$ (30)	\$ -	\$ -	\$ 90,608	\$ (30)
Common stocks	58,770	(2,803)	20,430	(1,492)	79,200	(4,295)
	<u>\$ 149,378</u>	<u>\$ (2,833)</u>	<u>\$ 20,430</u>	<u>\$ (1,492)</u>	<u>\$ 169,808</u>	<u>\$ (4,325)</u>
<b>2019</b>						
U.S. Treasury and U.S. government agencies	\$ 700,239	\$ (9,817)	\$ -	\$ -	\$ 228,426	\$ (37)
Industrial and miscellaneous	228,426	(37)	-	-	700,239	(9,817)
Common stocks	72,565	(2,703)	-	-	72,565	(2,703)
	<u>\$ 1,001,230</u>	<u>\$ (12,557)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,001,230</u>	<u>\$ (12,557)</u>

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 Cost	Fair Value
Due in one year or less	\$ 502,718	\$ 507,211
Due after one year through five years	4,228,051	4,456,005
Due after five years through ten years	3,951,667	4,251,576
Due after ten years	392,327	401,146
	<u>\$ 9,074,763</u>	<u>\$ 9,615,938</u>

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

**Gains and Losses on Available-For-Sale Securities Sold, Matured, or Repaid.** The components of gains (losses) on the sale of investments were as follows:

	<u>2020</u>	<u>2019</u>
Gains	\$ 62,890	\$ 13,893
Losses	<u>(73,212)</u>	<u>(14,674)</u>
Net realized capital gains (losses)	<u>\$ (10,322)</u>	<u>\$ (781)</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.

**Level 2 Measurements**

Bonds: Comprised of government obligations, corporate debt, and 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.



**WYSSTA, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2020 and 2019

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

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

Type of Financial Instrument	Aggregate Fair Value	Level 1	Level 2	Level 3
<b><u>December 31, 2020</u></b>				
Bonds	\$ 9,615,938	\$ 2,569,279	\$ 7,046,659	\$ -
Common stocks	2,649,639	2,649,639	-	-
<b><u>December 31, 2019</u></b>				
Bonds	\$ 9,068,540	\$ 3,872,078	\$ 5,196,462	\$ -
Common stocks	1,142,181	1,142,181	-	-

Changes in the unrealized gain (loss) on investments in available-for-sale securities during the years ended December 31, 2020 and 2019, reported as a separate component of stockholder's equity, are as follows:

	<u>2020</u>	<u>2019</u>
Balance, beginning	\$ 117,926	\$ (79,792)
Increase (decrease) in:		
Unrealized holding gains	379,096	271,744
Deferred tax effect related to net unrealized holding gains	<u>(103,269)</u>	<u>(74,026)</u>
Balance, ending	<u>\$ 393,753</u>	<u>\$ 117,926</u>

**Investment in Armata Pharmaceuticals, Inc. (Armata).** In prior years, the Company invested \$11,000,000 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 \$1,407,322 and \$0 as of December 31, 2020 and 2019, respectively.

**Note 3 ~ Investments in Privately Held Companies**

**Investment in Healthentic, Inc.** As of December 31, 2020 and 2019, the Company is a 20 percent owner on an outstanding share basis and holds one of the five board seats.

**Investment in Encara Corporation.** As of December 31, 2020 and 2019, the Company is a 25 percent owner on an outstanding share basis and holds one of four board seats.

**Note 4 ~ Related Parties**

Certain operating expenses incurred by Delta WI on behalf of the Company are allocated to the Company at cost in proportion to the estimated benefit received or as directly assigned. Allocation methods are periodically refined based on current operations and personnel costs utilized by the Company. In addition, Delta WI collects premiums on behalf of the Company and remits them to the Company on a monthly basis. Delta WI also pays commissions on behalf of the Company and the Company reimburses Delta WI on a monthly basis. Shown below are payroll and overhead expenses charged from Delta WI to the Company and its subsidiaries as of the year ended December 31:

	<u>2020</u>	<u>2019</u>
Wyssta, Inc.	\$ 1,946	\$ 1,556
Wyssta Insurance Company, Inc.	419,472	351,399
Wyssta Investments, Inc.	11,819	23,219
Wyssta Services, Inc.	<u>10,387,175</u>	<u>10,668,906</u>
	<u>\$ 10,820,412</u>	<u>\$ 11,045,080</u>

Related-party amounts receivable from (payable to) Delta WI, which include state taxes, consist of the following for the year ended December 31:

	<u>2020</u>	<u>2019</u>
Wyssta, Inc.	\$ (1,575)	\$ 1,034
Wyssta Insurance Company, Inc.	1,374,188	1,457,154
Wyssta Investments, Inc.	(81)	(6,811)
Wyssta Services, Inc.	<u>(1,553,437)</u>	<u>(1,059,763)</u>
	<u>\$ (180,905)</u>	<u>\$ 391,614</u>

**Note 4 ~ Related Parties** (Continued)

On July 1, 2019, Delta WI entered a joint venture with Delta Dental of Illinois creating a new limited liability company, NorthWinds Technology Solutions, LLC (NorthWinds), owning 50 percent. NorthWinds provides information technology (IT) services to the Company. Shown below are transactions and balances with NorthWinds as of, or for, the year ended December 31:

	<u>2020</u>	<u>2019</u>
IT services billed by NorthWinds:		
Wyssta Insurance Company, Inc.	\$ 1,001,276	\$ 196,985
Wyssta Services, Inc.	<u>4,873,233</u>	<u>1,667,926</u>
	<u>\$ 5,874,509</u>	<u>\$ 1,864,911</u>
Receivable from (payable to) NorthWinds:		
Wyssta Insurance Company, Inc.	\$ (37,169)	\$ (33,442)
Wyssta Services, Inc.	<u>(328,414)</u>	<u>(768,030)</u>
	<u>\$ (365,583)</u>	<u>\$ (801,472)</u>

Wyssta Investments, Inc. owns 25 percent of Encara Corporation (Encara), a company that performs marketing services for various Delta Dental companies with respect to their individual dental insurance products, including Delta WI. Encara is a customer of Wyssta Services, Inc. Shown below are transactions and balances with Encara as of, or for, the year ended December 31:

	<u>2020</u>	<u>2019</u>
Dental administrative income	\$ 257,244	\$ 353,906
Contract receivable	46,715	46,799

The Board of Directors approved and the Company paid a non-cumulative, ordinary dividend of \$1,000,000 to Delta WI in both 2020 and 2019.

**Note 5 ~ Liability for Claims Unpaid**

Activity in the liability for claims unpaid for the years ended December 31, 2020 and 2019, is summarized as follows:

	<u>2020</u>	<u>2019</u>
Balance, beginning of year	\$ 385,000	\$ 413,000
Incurred related to:		
Current year	12,105,187	12,024,617
Prior years	(13,712)	(17,087)
Total incurred	<u>12,091,475</u>	<u>12,007,530</u>
Paid related to:		
Current year	11,742,187	11,639,617
Prior years	371,288	395,913
Total paid	<u>12,113,475</u>	<u>12,035,530</u>
Balance, end of year	<u>\$ 363,000</u>	<u>\$ 385,000</u>

The above 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 decreased by \$13,712 and \$17,087 in 2020 and 2019, respectively.

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:

	<u>Cumulative Incurred Claims (\$000's)</u>					<u>As of 12/31/2020</u>
Year	2016	2017	2018	2019	2020	IBNR
2016	\$ 7,091	\$ 7,093	\$ 7,093	\$ 7,093	\$ 7,093	
2017		9,440	9,455	9,455	9,455	
2018			10,604	10,587	10,587	
2019				12,025	12,011	
2020					<u>12,105</u>	200
				Total	<u>\$ 51,251</u>	

**Note 5 ~ Liability for Claims Unpaid** (Continued)

Cumulative Paid Claims (\$'000's)					
Year	2016	2017	2018	2019	2020
2016	\$ 6,701	\$ 7,093	\$ 7,093	\$ 7,093	\$ 7,093
2017		9,044	9,455	9,455	9,455
2018			10,191	10,587	10,587
2019				11,640	12,011
2020					<u>11,742</u>
				Total	<u>50,888</u>
				Claims unpaid	<u>\$ 363</u>

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

**Note 6 ~ Income Taxes**

The Company files a consolidated federal income tax return. The Company files a consolidated state income tax return with its parent, Delta WI.

Income tax expense differs from the amounts obtained by applying a combined federal and state income tax rate of 27.2 percent to the pretax income for the years ended December 31, 2020 and 2019, due to the following:

	2020	2019
Expected tax provision	\$ 2,315,016	\$ 1,046,714
Increase (decrease) in income taxes resulting from:		
Change in deferred tax valuation allowance	(438,063)	(65,776)
Non-deductible ACA industry fee	78,882	-
Other - net	<u>16,385</u>	<u>74,649</u>
Income tax expense	<u>\$ 1,972,220</u>	<u>\$ 1,055,587</u>

**WYSSTA, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2020 and 2019

**Note 6 ~ Income Taxes** (Continued)

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:		
Organization and start-up costs	\$ 467	\$ 4,540
Claims unpaid and unpaid claim adjustment expenses	1,599	1,716
Premiums received in advance	33,410	26,702
Net operating loss carryforward	4,756	5,189
Loss on investment on Armata	2,613,144	2,996,513
Loss on investment in Healthentic, Inc.	1,146,684	1,177,813
Loss on investment in Encara	<u>468,256</u>	<u>453,674</u>
Total deferred tax assets	4,268,316	4,666,147
Valuation allowance	(4,228,084)	(4,666,147)
Deferred tax liabilities:		
Unrealized gain on investments	(213,790)	(91,253)
Other - net	<u>(834)</u>	<u>-</u>
Total deferred tax liabilities	<u>(214,624)</u>	<u>(91,253)</u>
Net deferred tax liabilities	<u>\$ (174,392)</u>	<u>\$ (91,253)</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 Company'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.

For state income purposes, the Company records a receivable from (payable to) Delta WI for the Company's portion of state income taxes. Receivable (payable) amounts to Delta WI for state income tax purposes are as follows as of December 31:

	<u>2020</u>	<u>2019</u>
Wyssta, Inc.	\$ (854)	\$ (1,167)
Wyssta Insurance Company, Inc.	268,974	6,693
Wyssta Investments, Inc.	(2,344)	(2,901)
Wyssta Services, Inc.	<u>329,370</u>	<u>34,206</u>
	<u>\$ 595,146</u>	<u>\$ 36,831</u>

**Note 7 ~ 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 8 ~ Statutory Net Income and Capital 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 for Wyssta Insurance Company, Inc., a wholly-owned subsidiary of Wyssta, Inc., was \$2,077,124 in 2020 and \$2,219,092 in 2019, and statutory surplus was \$13,391,108 and \$12,268,041 as of December 31, 2020 and 2019, respectively.

Wyssta Insurance Company, Inc. is required to maintain minimum capital and surplus established by the Office of the Commissioner of Insurance of the State of Wisconsin (the OCI). Wyssta Insurance Company, Inc. is also subject to risk-based capital (RBC) requirements promulgated by the NAIC and adopted by the OCI. The RBC standards establish uniform minimum capital and 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, the Wyssta Insurance Company, Inc.'s capital and surplus exceeded the minimum levels required by the OCI and RBC standards.

**Note 9 ~ Special Surplus Funds**

On January 1, 2014, Wyssta Insurance Company, Inc., a wholly-owned subsidiary of 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 \$290,007 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.

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

To the Board of Directors and Stockholder  
Wyssta, Inc. and Subsidiaries  
Stevens Point, Wisconsin

We have audited the consolidated financial statements of Wyssta, Inc. and Subsidiaries 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 23 through 25 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



**WYSSTA, INC. AND SUBSIDIARIES**  
**CONSOLIDATING BALANCE SHEET**

December 31, 2020 (with Comparative Totals for 2019)

	Wyssta, Inc.	Wyssta Insurance Company, Inc.	Wyssta Investments, Inc.	Wyssta Services, Inc.	Eliminations	Consolidated 2020	Consolidated 2019
<b>ASSETS</b>							
Cash and cash equivalents	\$ 361,401	\$ 4,677,201	\$ 943,597	\$ 5,028,034	\$ -	\$ 11,010,233	\$ 7,217,953
Investment income due and accrued	-	52,731	-	-	-	52,731	59,308
Uncollected premiums	-	20,040	-	-	-	20,040	67,800
Contracts receivable	-	-	-	3,923,164	-	3,923,164	2,985,904
Receivable from Delta Dental of WI, Inc.	-	-	-	-	-	-	391,614
Prepaid expenses	-	-	-	548,842	-	548,842	133,434
Federal income tax recoverable	237,907	-	-	-	-	237,907	-
Intercompany balances	498,165	8,339	3,758	-	(510,262)	-	-
Total current assets	1,097,473	4,758,311	947,355	9,500,040	(510,262)	15,792,917	10,856,013
Investments in available-for-sale securities	-	9,615,938	-	-	-	9,615,938	9,068,539
Investments in common stocks	-	1,242,317	1,407,322	-	-	2,649,639	1,142,182
Investment in Healthentic, Inc.	-	-	181,606	-	-	181,606	76,321
Investment in Encara Corporation	-	-	381,062	-	-	381,062	434,593
Investment in Wyssta Insurance Company, Inc.	13,777,485	-	-	-	(13,777,485)	-	-
Investment in Wyssta Investments, Inc.	2,915,717	-	-	-	(2,915,717)	-	-
Investment in Wyssta Services, Inc.	5,370,007	-	-	-	(5,370,007)	-	-
Total assets	\$ 23,160,682	\$ 15,616,566	\$ 2,917,345	\$ 9,500,040	\$ (22,573,471)	\$ 28,621,162	\$ 21,577,648

**WYSSTA, INC. AND SUBSIDIARIES**  
**CONSOLIDATING BALANCE SHEET (CONTINUED)**  
December 31, 2020 (with Comparative Totals for 2019)

	Wyssta, Inc.	Wyssta Insurance Company, Inc.	Wyssta Investments, Inc.	Wyssta Services, Inc.	Eliminations	Consolidated 2020	Consolidated 2019
<b>LIABILITIES</b>							
Claims unpaid	\$ -	\$ 363,000	\$ -	\$ -	\$ -	\$ 363,000	\$ 385,000
Unpaid claims adjustment expenses	-	24,000	-	-	-	24,000	25,000
Accounts payable	6,499	1,819,032	6,501	1,915,148	-	3,747,180	2,352,569
Payable to Delta Dental of Wisconsin, Inc.	1,575	(1,374,188)	81	1,553,437	-	180,905	-
Payable to NorthWinds Technology Consulting, LLC	-	37,169	-	328,414	-	365,583	801,472
Intercompany balances	-	177,228	-	333,034	(510,262)	-	-
Federal income tax payable	-	-	-	-	-	-	90,936
Deferred revenue	-	613,225	-	-	-	613,225	493,237
Total current liabilities	8,074	1,659,466	6,582	4,130,033	(510,262)	5,293,893	4,148,214
Deferred tax liabilities	(269)	179,615	(4,954)	-	-	174,392	91,253
Total liabilities	\$ 7,805	\$ 1,839,081	\$ 1,628	\$ 4,130,033	\$ (510,262)	\$ 5,468,285	\$ 4,239,467
<b>STOCKHOLDER'S EQUITY</b>							
Common stock	\$ -	\$ 1,250,000	\$ 19,000,000	\$ 6,500	\$ (20,256,500)	\$ -	\$ -
Additional paid-in capital	29,200,000	4,750,000	-	3,793,500	(8,543,500)	29,200,000	29,200,000
Retained earnings (deficit)	(6,440,876)	7,383,732	(16,084,283)	1,570,007	7,130,544	(6,440,876)	(11,979,745)
Accumulated other comprehensive income	393,753	393,753	-	-	(393,753)	393,753	117,926
Total stockholder's equity	23,152,877	13,777,485	2,915,717	5,370,007	(22,063,209)	23,152,877	17,338,181
Total liabilities and stockholder's equity	\$ 23,160,682	\$ 15,616,566	\$ 2,917,345	\$ 9,500,040	\$ (22,573,471)	\$ 28,621,162	\$ 21,577,648

**WYSSTA, INC. AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF INCOME**  
Year ended December 31, 2020 (with Comparative Totals for 2019)

	Wyssta, Inc.	Wyssta Insurance Company, Inc.	Wyssta Investments, Inc.	Wyssta Services, Inc.	Eliminations	Consolidated 2020	Consolidated 2019
<b>REVENUES</b>							
Risk premiums earned	\$ -	\$ 18,870,327	\$ -	\$ -	\$ -	\$ 18,870,327	17,581,860
ASO administrative fees	-	67,161	-	-	-	67,161	78,187
ASO claims reimbursed	-	54,310	-	-	-	54,310	64,719
Total premium revenues	-	18,991,798	-	-	-	18,991,798	17,724,766
ASO claims incurred	-	(54,310)	-	-	-	(54,310)	(64,719)
Total net premium revenues	-	18,937,488	-	-	-	18,937,488	17,660,047
<b>OTHER REVENUES</b>							
Dental administrative income	-	-	-	23,058,971	-	23,058,971	19,145,997
Interest and dividend income	-	243,887	-	-	-	243,887	245,105
Realized gain (loss) on sale of investments	-	(21,598)	-	-	-	(21,598)	11,006
Unrealized gain on investments in common stocks	-	70,730	1,407,322	-	-	1,478,052	172,905
Gain on wholly-owned subsidiaries	6,546,156	-	-	-	(6,546,156)	-	-
Gain on investment in Healthentic, Inc.	-	-	105,284	-	-	105,284	136,282
Gain (loss) on investment in Encara Corporation	-	-	(53,531)	-	-	(53,531)	29,590
Total other revenues	6,546,156	293,019	1,459,075	23,058,971	(6,546,156)	24,811,065	19,740,885
Total revenues	6,546,156	19,230,507	1,459,075	23,058,971	(6,546,156)	43,748,553	37,400,932
<b>EXPENSES</b>							
Risk claims incurred	-	12,091,475	-	-	-	12,091,475	12,007,530
Claims adjustment and vision administration fee	-	1,077,129	-	-	-	1,077,129	966,889
Payroll and benefits	1,947	419,472	11,819	9,869,571	-	10,302,809	10,104,695
Professional and contract services	8,250	1,044,750	8,750	6,480,708	-	7,542,458	5,730,056
Computer hardware and software	-	-	-	1,299,214	-	1,299,214	1,545,333
Commissions	-	1,159,211	-	-	-	1,159,211	1,108,391
Telephone	-	-	-	239,099	-	239,099	490,739
Allocated costs	-	-	-	616,627	-	616,627	1,017,009
Office	-	-	-	309,790	-	309,790	218,008
Other	220	401,706	-	197,725	-	599,652	364,069
Total expenses	10,417	16,193,743	20,569	19,012,734	-	35,237,464	33,552,719
Net income before income tax expense	6,535,739	3,036,764	1,438,506	4,046,237	(6,546,156)	8,511,089	3,848,213
Income tax expense (benefit)	(3,131)	874,003	(11,056)	1,112,404	-	1,972,220	1,055,587
Net income	\$ 6,538,870	\$ 2,162,761	\$ 1,449,562	\$ 2,933,833	\$ (6,546,156)	\$ 6,538,869	\$ 2,792,626