

EXAMINATION REPORT OF
DELTA DENTAL OF IOWA
JOHNSTON, IOWA
AS OF DECEMBER 31, 2016

Johnston, Iowa
June 7, 2018

HONORABLE DOUG OMMEN
Commissioner of Insurance
State of Iowa
Des Moines, Iowa

Commissioner,

In accordance with your authorization and pursuant to Iowa statutory provisions, an Examination has been made of the records, business affairs and financial condition of

DELTA DENTAL OF IOWA

JOHNSTON, IOWA

AS OF DECEMBER 31, 2016

at its corporate home office, 9000 Northpark Drive, Johnston, Iowa.

INTRODUCTION

Delta Dental of Iowa, hereafter referred to as the "Company", was last examined as of December 31, 2011 by the Iowa Insurance Division.

The Company's wholly owned subsidiary, Veratrus Benefit Solutions, Inc. ("VBS"), was examined concurrently with this examination.

SCOPE OF EXAMINATION

This is the regular comprehensive financial examination of the Company covering the intervening period from January 1, 2012 to the close of business on December 31, 2016, including any material transactions and/or events occurring and noted subsequent to the examination period.

The examination was conducted in accordance with the National Association of Insurance Commissioners Financial Condition Examiners Handbook. The Handbook requires the examination to be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company; including corporate governance, identifying and assessing inherent risks within the organization, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions, when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. The Company's assets were verified and evaluated, and the liabilities determined to reflect herein a statement of its financial condition as of December 31, 2016.

HISTORY

The Company was incorporated on October 22, 1970 as a nonprofit corporation under Chapter 504A of the Code of Iowa. Its purpose of incorporation was for establishing, maintaining and operating a voluntary nonprofit dental care company by which professional dental services are provided to persons or groups of persons who shall become subscribers to such a company.

Effective January 1, 2005, the Company changed its name from Delta Dental Plan of Iowa to Delta Dental of Iowa ("DDIA").

On January 1, 2010, the Company created a wholly owned subsidiary, Veratrus Benefit Solutions, Inc. (VBS) to distribute the Delta Vision product. The Company invested \$100,000 in common stock in January 2010 and an additional \$250,000 of paid-in capital during 2010. The Company invested an additional \$125,000 and \$60,000 during 2011 and 2012, respectively.

INSURANCE HOLDING COMPANY SYSTEM

The Company is a member of a Holding Company System as defined by Chapter 521A of the Code of Iowa. The Company is the ultimate controlling person for the group. An Insurance Holding Company System Registration Statement was filed with the Iowa Insurance Division for each year of the examination period.

The Company has a management agreement with VBS whereby the Company makes its employees available to VBS to perform services necessary to conduct its business operations. VBS reimburses the Company for all direct costs incurred on behalf of VBS. Direct costs are based upon allocation percentages agreed upon in writing by the two parties.

On July 24, 2007, the Company established the Delta Dental of Iowa Foundation ("DDIAF"), a 501(c)3 corporation approved by the Internal Revenue Service, to administer funds set aside for public benefit programs which exist to support and improve the oral health of Iowans.

As of December 31, 2016, the DDIAF Board of Directors was comprised of 14 members representing the Company, government/public health, the dental community, academia, community health, and other philanthropic organizations. The President and Chief Executive Officer of the Company and the Chairman of the Company's Board of Directors hold seated positions on the DDIAF Board and the remaining twelve DDIAF Board members are elected annually by the Company's Board of Directors. The Company's Vice President of Public Affairs serves as the Executive Director of DDIAF, the Company's President and Chief Executive Officer serves as President of DDIAF and the Company's Vice President of Finance and Controller serves as Treasurer of DDIAF.

The Company is the sole member of DDIAF and annually funds its Public Benefit Program in correlation to its financial performance.

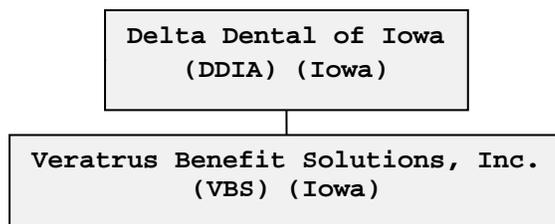
The Company has a management services agreement with DDIAF under which the Company provides accounting and other services to DDIAF for which DDIAF pays the Company a management fee.

Effective May 22, 2003, the Company entered into an Interplan Participation Agreement with DeltaUSA, an Illinois not-for-profit corporation, whereby DeltaUSA assists Delta Dental Plans and their affiliates with administering multi-state dental benefit programs and services known as DeltaUSA Programs. The primary purposes of these programs are to provide purchasers of dental care competitive administrative costs,

single or limited site processing where preferred by the purchaser, written participating dentist agreements and uniform claims processing.

The Company has an actuarial services agreement with Delta Dental of Wisconsin ("DDWI") whereby DDWI provides actuarial and reporting services to the Company.

An organizational chart identifying the Companies within the Holding Company System as of December 31, 2016 follows.



MANAGEMENT AND CONTROL

MEMBERSHIP

The Restated Bylaws provide that the membership of the corporation shall consist of providers, who are participating dentists, who hold a current license to practice dentistry under Chapter 153, Code of Iowa, with an office located in the State of Iowa, and who have contracted with the Company to provide dental services to subscribers of the Company.

Subscribers are individuals who have a current contract with the Company for dental services and includes individuals eligible for medical assistance or additional medical assistance as defined under Chapter 249A, Code of Iowa, with respect to whom the Iowa Department of Human Services has entered into a contract with the Company. Subscribers of the Company who are elected to the Board of Directors are also members.

Membership in the Company is nontransferable and shall continue until the member ceases to be a provider, or in the case of a subscriber, when he or she ceases to be a member of the Board of Directors.

The annual meeting of the Company's members is to be held at such place, date and time as the Board of Directors shall fix each year, which date shall be the earlier of the first six months after the end of the Company's fiscal year or 15 months after the members' last annual meeting. Special meetings of the members may be called at any time by the Board of Directors, the Chair of the Board, or the President, or upon written request of five percent (5%) of the members.

Notice stating the place, date and time of each meeting of the members, annual or special, is to be communicated to each member who is entitled to vote at the meeting not less than ten days or more than 60 days before the date of the meeting.

Ten members present in person shall constitute a quorum for the transaction of business. A quorum for the approval of any amendment to the Company's Articles of Incorporation and for the removal of more than one director requires 25 percent of the members to be present in person.

Each member of the Company is entitled to one vote on the election of directors and each matter properly submitted to a vote at a meeting of the members. Voting on proposals to amend the Articles of Incorporation, elect directors, and on other matters

which are required by law to be submitted to a vote of the members, shall be cast by written ballot. Voting by proxy is not permitted under any circumstances.

The Chair of the Board, or in the absence of the Chair of the Board, the Vice Chair of the Board, or in the absence of the Vice Chair of the Board, the President, or in the absence of the President, such person as the Board of Directors may have designated, or, in the absence of such a person, such person as shall be designated by the holders of a majority of the votes present at the meeting, shall call meetings of the members to order and shall act as the chairperson of such meetings.

Except as described below, any action required or permitted by law to be taken at a meeting of the members may be taken without a meeting or vote if one or more consents in writing setting forth the action taken shall be signed and dated by the members having not less than 80% of the votes entitled to be cast at a meeting at which all members entitled to vote on the action were present and voted, and are delivered to the Company for inclusion in the minutes or filing with the Company's records. Notwithstanding the foregoing, a director shall not be removed by written consents unless written consents are obtained from all members of the Company.

BOARD OF DIRECTORS

The Restated Bylaws provide that all corporate powers are to be exercised by or under the authority of, and the business affairs of the Company are to be managed under the direction of, the Board of Directors.

The number of directors of the Company shall be either nine or twelve, as determined from time to time by the Board of Directors. In all events, exactly two-thirds of the directors shall be subscribers and exactly one-third shall be providers.

Subscribers and providers, to be eligible for election as directors, must meet the qualifications set forth in Section 514.4, Code of Iowa, and the administrative regulations issued thereunder, as well as the other eligibility requirements set forth in the Bylaws. No person may be elected as director who is 71 years of age or more at the time of the election.

Directors are initially elected for a three-year term and may be re-elected for additional successive terms of one to three years based upon the resource needs of the Company. No director may be elected to serve for more than the equivalent of four consecutive three-year terms (totaling twelve years) except for the Chief Executive Officer. Directors shall hold office for the term to which they were elected or appointed and until their successors have been elected and qualified. All directors with more than four consecutive three-year terms of service at the time that the Restated Bylaws were adopted were eligible to be nominated for one additional three-year term of service.

All directors shall submit a written letter of resignation to the Board of Directors upon their retirement, semi-retirement, relocation of their residence outside of Iowa, or other significant change in their professional responsibilities. Any vacancy on the Board of Directors may be filled immediately by the Board of Directors upon the recommendation of the Governance Committee, and in the case of a subscriber director position vacancy, also upon the recommendation of the Subscriber Director Nominating Committee. A director elected or appointed to fill a vacancy is to fill the unexpired term of his or her predecessor in office.

The Board of Directors is to hold an annual meeting immediately following the annual meeting of the members for the election of officers of the Company, the designation of committees of the Board and the transaction of other business as may properly come before the meeting. Notice of such meeting need not be given. The annual

meeting of the Board of Directors shall be held at the same location as the annual meeting of members.

The Board of Directors may provide the time and place either within or outside the State of Iowa, for the holding of regular meetings. Special meetings of the Board may be called at the request of the Chair of the Board, Vice Chair of the Board, the President, or any three directors. Notice of any regular or special meeting shall be given at least five days previous thereto by written notice by mail or at least three days previous thereto by express mail, personal delivery, email, or facsimile.

A majority of the number of directors fixed by the Restated Bylaws constitutes a quorum for the transaction of business. The act of a majority of the directors present at a meeting at which a quorum is present is the act of the Board of Directors.

Any action required or permitted by law to be taken at any meeting of the Board of Directors may be taken without a meeting if the action is taken by all members of the Board of Directors and if one or more consents in writing describing the action so taken is signed by each director then in office and included in the minutes or filed with the corporate records reflecting the action taken.

A director may be removed from office as provided in the Revised Iowa Non-profit Corporation Act. Whenever any director shall be absent from three successive regular meetings of the Board of Directors, the Board of Directors may, at the next meeting, remove such director from office by a vote of the majority of the directors then in office and may fill such office as provided in the Restated Bylaws.

Any director may resign at any time by delivering written notice to the Chair of the Board or to the Chief Executive Officer. A resignation is effective when the notice is delivered unless the notice specifies a later effective date.

Directors may be compensated in accordance with a compensation schedule or similar document adopted by the Board of Directors from time to time.

The directors duly elected and serving as of December 31, 2016 were as follows:

<u>Name and Address</u>	<u>Principal Business Affiliation</u>	<u>Term Expires</u>
C. Edward Brown West Des Moines, Iowa	The Iowa Clinic, P.C. Chief Executive Officer	2017
William A. Wever II, DDS Ainsworth, Iowa	Practicing Dentist Integrity Dental	2017
Anne N. Hennessey, DDS Cedar Falls, Iowa	Practicing Dentist Hennessey Family Dentistry, LLC	2017
Thomas J. Mahoney, Jr. West Des Moines, Iowa	President and Chief Executive Officer ITA Group	2018
John A. Maletta, DDS Des Moines, Iowa	Oral Surgeon Iowa Oral & Maxillofacial Surgeons, PC	2018
Jeffrey S. Russell Des Moines, Iowa	President and Chief Executive Officer Delta Dental of Iowa	2018
Thomas L. Aller Cedar Rapids, Iowa	Retired Energy Industry Executive	2019

<u>Name and Address</u>	<u>Principal Business Affiliation</u>	<u>Term Expires</u>
Rowena G. Crosbie Earlham, Iowa	President Tero International	2019
Krista K. Tanner Clive, Iowa	President ITC Midwest	2019

BOARD COMMITTEES

The Restated Bylaws provide that the Board of Directors shall have the following standing committees: (i) Governance Committee, (ii) Executive and Compensation Committee, (iii) Finance and Audit Committee, and (iv) Subscriber Director Nominating Committee, and, by resolution, may create further committees. The Board of Directors has created the Investment Committee and the Retirement Plan Committee.

Committees may exercise such power and carry out such functions as designated in the Restated Bylaws, in any resolution of the Board of Directors, or as otherwise delegated by the Board of Directors. A majority of the members of a committee constitute a quorum for the transaction of business. The act of a majority of the members present at a meeting at which a quorum is present is the act of a committee.

The Governance Committee is a Board Committee whose primary responsibilities are to make recommendations to the Board on Board organization and procedures, evaluate the performance of the Board, and nominate directors. All Committee members must be independent directors.

The membership of the Governance Committee as of December 31, 2016 was as follows:

<u>Member</u>	<u>Position</u>
Anne N. Hennessey, DDS	Provider Director, Chair
Thomas L. Aller	Subscriber Director
Krista K. Tanner	Subscriber Director
William A. Wever II, DDS	Provider Director

The Executive and Compensation Committee is a Board Committee whose primary responsibilities are to provide guidance and oversee all employee and director compensation and benefit programs, the Company's Total Compensation Policy, and to oversee the evaluation, selection and retention of the Company's Chief Executive Officer. The Committee is to consist of three members, two of whom are subscriber directors and one of whom is a provider director.

The membership of the Executive and Compensation Committee as of December 31, 2016 was as follows:

<u>Member</u>	<u>Position</u>
Thomas L. Aller	Subscriber Director, Chair
Anne N. Hennessey, DDS	Provider Director, Vice Chair
C. Edward Brown	Subscriber Director

The Finance and Audit Committee is a Board Committee whose primary responsibilities are to monitor the Company's financial reporting process and internal control systems; recommend to the Board the Company's independent auditors; monitor and oversee the services of the independent auditors; review and make recommendations to the Board concerning the Company's Investment Policy and work of the Investment Committee; and facilitate communication among the Company's independent auditors,

financial and senior management, and the Board of Directors. The Committee shall consist of a number of members of the Board of Directors to be determined by the Board, none of whom should be employees of the Company or employed by the Company within the preceding two years. At least one member shall have accounting or related financial management expertise.

The membership of the Finance and Audit Committee as of December 31, 2016 was as follows:

<u>Member</u>	<u>Position</u>
C. Edward Brown	Subscriber Director, Chair
John A. Maletta, DDS	Provider Director
Rowena G. Crosbie	Subscriber Director
Thomas J. Mahoney, Jr.	Subscriber Director

The Subscriber Director Nominating Committee is a Board Committee whose primary responsibility is to review and approve subscriber director candidates nominated by the Governance Committee for placement on the ballot for election by members. The Committee shall consist of all the subscriber directors then serving on the Board of Directors.

The membership of the Subscriber Director Nominating Committee as of December 31, 2016 was as follows:

<u>Member</u>	<u>Position</u>
Thomas L. Aller	Subscriber Director
Rowena G. Crosbie	Subscriber Director
Krista K. Tanner	Subscriber Director
Jeffrey S. Russell	Officer and Subscriber Director
C. Edward Brown	Subscriber Director
Thomas J. Mahoney, Jr.	Subscriber Director

The Investment Committee is a Board Committee whose primary responsibilities are to develop the Company's investment strategy and monitor its implementation; develop the Company's Investment Policy and recommend the policy to the Finance and Audit Committee and Board of Directors; review the compliance of all investment portfolios relative to the Investment Policy and regulatory constraints; review individual investment performance and market conditions; retain the Company's external investment advisors and consultants; and retain the Company's trustee for safeguarding of assets. The Investment Committee shall consist of at least three members and include the Company's Chief Executive Officer, Vice President, Finance and Controller, and at least one external party to be appointed by the Chief Executive Officer, who is considered an investment industry expert.

The membership of the Investment Committee as of December 31, 2016 was as follows:

<u>Member</u>	<u>Position</u>
Jeffrey S. Russell	Officer and Subscriber Director
Sherry M. Perkins	Officer
Larry Cobb	External Representative
Donn Hutchins	External Representative

The Retirement Plan Committee is a Board Committee whose primary responsibilities are to supervise the investment of the assets of the Delta Dental of Iowa 401k Plan ("Plan") in accordance with the Employee Retirement Income Security Act of 1974 ("ERISA"); establish an Investment Policy Statement for the Plan; review and approve

and/or replace investments, investment advisors, and plan administrators of the Plan; and review the Plan administration, fees and expenses for reasonableness. The Committee shall consist of the Company's President and Chief Executive Officer, Human Resources Director, and Vice President, Finance and Controller.

The membership of the Retirement Plan Committee as of December 31, 2016 was as follows:

<u>Member</u>	<u>Position</u>
Jeffrey S. Russell	Officer and Subscriber Director
Sherry M. Perkins	Officer
Beth Russett	Director of Human Resources

PROVIDER APPEALS COMMITTEE

The Provider Appeals Committee of the Company is a committee whose primary responsibilities are to hear appeals from participating dentists whose contracts with the Company have been served with a Notice of Termination with cause and to hear appeals from providers who are denied participation in any Delta Dental of Iowa network as a result of the initial credentialing process.

The Committee may consist of up to twelve members who are participating dentists or representatives of Delta Dental of Iowa contract holders, none of which are current members of the Board of Directors. Appointment of Committee members shall be made by the Chair of the Board of Directors with the approval of the Board of Directors as referenced in the Uniform Regulations.

The Committee shall act as three-person panels to hear and decide appeals of providers who, after being notified that their Participation Agreements with the Company are being terminated, timely notify the Company that he or she is appealing the Company's decision. The membership of the Provider Appeals Committee as of December 31, 2016 was as follows:

<u>Member</u>	<u>Position</u>
Randi Steffani	Subscriber Member, Chair
Cliff Cavalier	Subscriber Member
Cheri Klyn	Subscriber Member
Chris Wehde	Subscriber Member
Dr. Ron Elvers	Provider Member
Dr. Keith V. Krell	Provider Member
Dr. Tom Schierbrock	Provider Member

OFFICERS

As stated in the Revised Bylaws, the officers of the Company shall consist of a Chair of the Board, a Vice Chair of the Board, a Chief Executive Officer, a President, a Secretary and a Treasurer, and such other officers as may be elected or appointed by the Board of Directors from time to time at the discretion of the Board of Directors, including one or more Vice Presidents, Assistant Treasurers and Assistant Secretaries. Any two or more offices may be held by the same person.

The officers of the Company shall be elected annually by the Board of Directors. Each officer shall hold office until his or her successor shall have been duly elected and qualified or until his or her death, resignation or removal. Any officer may be removed by the Board of Directors with or without cause, and for any reason or no reason, at any time, but such removal shall be without prejudice to the contract rights if any, of the person so removed.

The officers duly elected and serving as of December 31, 2016 were as follows:

<u>Name</u>	<u>Title</u>
Jeffrey S. Russell	President and Chief Executive Officer
Sherry M. Perkins	Vice President, Finance, Secretary and Treasurer
Michael L. Elam	Vice President, Sales & Customer Relations
Suzanne B. Heckenlaible	Vice President, Public Affairs
Todd D. Herren	Vice President, Technology
Elizabeth A. Myers	Vice President, Operations
Jeffrey G. Chaffin, DDS	Vice President and Dental Director
April E. Schmaltz	Vice President, Marketing & Business Development

The compensation for the above officers is shown in Exhibit A to be found immediately following the signature page of this report.

CONFLICT OF INTEREST

The Company has an established procedure for the annual disclosure to its Board of Directors of any material interest or affiliation on the part of its officers, directors or key employees which is in conflict with, or is likely to be in conflict with, the official duties of such persons. A review of these statements indicated there were no conflicts found that would appear to interfere with that person's official duties.

CORPORATE RECORDS

The Articles of Incorporation were not amended or restated during the examination period.

The Bylaws were amended on September 19, 2014 and the changes included in those amendments are reflected in the *Management and Control* section of this report.

The recorded minutes of the meetings of the Membership, Board of Directors and Committees were read and noted. During the Board of Directors meeting of September 20, 2013, the Board accepted the Iowa Insurance Division's Examination Report as of December 31, 2011.

FIDELITY BONDS AND OTHER INSURANCE

Under a financial institution bond, the Company is protected against loss from any fraudulent or dishonest act of any employee up to \$5,000,000 each loss occurrence and \$5,000,000 aggregate limit of liability.

The other interests of the Company appear to be adequately protected through coverages afforded by policies in force.

EMPLOYEES WELFARE

The Company provides group life insurance, disability insurance, medical insurance, and dental insurance to all eligible employees. The Company also provides a qualified contributory 401(k) Plan covering substantially all employees. The Company makes contributions to the 401(k) plan matching a portion of employee contributions.

The Company established the Delta Dental of Iowa Supplemental Retirement Plan ("SERP Plan"), a nonqualified deferred compensation plan, on January 1, 2010 to provide for supplemental retirement benefits for selected management and highly compensated

employees. The Company makes discretionary contributions to the SERP Plan, and unvested benefits are held by the Company.

The Company established the Delta Dental Plan of Iowa 457(b) Retirement Plan ("457 Plan") on July 1, 2003 to provide deferred compensation benefits for a select group of management and directors in accordance with Part 1 of Title 1 of ERISA. The select group of management and directors enters into a salary deferral agreement with the Company to elect to contribute a portion of their compensation to the 457 Plan.

The Company established the Delta Dental of Iowa Executives 457(f) Retirement Plan ("457(f) Plan") on January 1, 2016 to provide for incentive and retention benefits for selected executive employees. The Company makes discretionary contributions to the 457(f) Plan, and unvested benefits are held by the Company.

REINSURANCE

The reinsurance contracts of the Company were reviewed, and no contract provisions were found to be outside the custom of the industry. All contracts had acceptable insolvency clauses and transfer of risk. The Company has no reinsurance contracts with unauthorized reinsurers.

During 2014, the Company entered into two separate agreements with Delta Dental Insurance Company, an unaffiliated dental provider domiciled in California. Under the first agreement, the Company assumes certain dental insurance under a 3.02 percent risk sharing contract. Under the second agreement, the Company assumes certain dental insurance under a 2.53 percent risk sharing contract that covers two separate programs.

TERRITORY AND PLAN OF OPERATION

The Company is a nonprofit corporation licensed to write business in the state of Iowa. The Company maintains and operates a dental care plan by which dental services are provided under contract to subscribers by dentists licensed and registered in the state of Iowa. Both local and national contracts are administered, which have the key feature of giving subscribers access to the local provider networks maintained by the Company, as well as the national provider networks of the Delta Dental system under the DeltUSA program

The Company is a member of the Delta Dental Plans Association, whose purpose is to promote an increase in the availability of dental care to the public by encouraging the expansion of dental benefit programs administered through independent Delta Dental member companies operating in all 50 states, the District of Columbia and Puerto Rico.

The Company also participates in the federally facilitated health exchange ("ACA") and contracts with the State of Iowa Department of Human Services to administer dental benefits under the Children's Health Insurance Program ("CHIP") which is known as the *hawk-i* program and under the state's Medicaid Expansion Program, known as the Dental Wellness Plan.

GROWTH OF COMPANY

The growth of the Company is reflected by the following data taken from the Company's copies of the filed annual statements. (000's omitted)

<u>Year</u>	<u>Total Admitted Assets</u>	<u>Capital and Surplus</u>	<u>Total Revenues</u>	<u>Total Claims</u>	<u>Net Investment Income</u>
2012	\$64,799	\$51,262	\$ 66,543	\$ 50,584	\$1,620
2013	73,831	58,710	69,199	52,396	1,688
2014	87,766	62,522	110,301	89,518	2,032
2015	85,052	63,952	135,928	112,407	2,292
2016	87,123	62,677	152,943	124,762	2,266

ACCOUNTS AND RECORDS

The Company's general ledgers are maintained on an electronic accrual basis. The Company uses electronic data processing equipment and related software for processing and maintaining its accounts, records and files. The Information Systems controls were reviewed by this examination. No material exceptions were noted to accepted control practices and procedures.

Trial balances of the Company's general ledger accounts were prepared for each year under examination and were found to be in agreement with the office copies of the filed annual statements for those years. Cash receipts and disbursements were tested to the extent deemed necessary.

The records in the Company's policy administration systems were sampled and tested by comparing data contained in supporting documents to data contained in the computer records. No material differences were noted.

During the course of the examination, no material aggregate surplus differences were identified from the amounts reflected in the financial statements, as presented in the Annual Statement at December 31, 2016.

SUBSEQUENT EVENTS

On February 27, 2017, the Company set up a for-profit holding company, Veratrus Health, Inc. ("VHI"), and purchased 10,000 shares of common stock of VHI for consideration of \$1,050,000 and all common stock of VBS. VHI is incorporated in the State of Iowa as a for-profit corporation and will be the holding company of various organizations offering services in the State of Iowa.

Also on February 27, 2017, the Company created Veratrus Investments, LLC ("VILLC"), an Iowa limited liability company as a subsidiary of VHI. VHI is the sole member of VILLC. On February 28, 2017, VILLC purchased a minority investment in Medix, L.C., an Iowa limited liability company.

On June 16, 2017, Donna G. Paulsen, DDS was elected to the Board of Directors as a Provider Director for a three-year term ending 2020, replacing Anne N. Hennessey, DDS who reached the maximum term of service on the Board.

F I N A N C I A L S T A T E M E N T S
A N D C O M M E N T S T H E R E O N

NOTE: Except as otherwise stated, the financial statements immediately following reflect only the transactions for the period ending December 31, 2016, and the assets and liabilities as of that date.

STATEMENT OF ASSETS, LIABILITIES AND SURPLUS

ASSETS

	<u>Assets</u>	<u>Not Admitted</u>	<u>Admitted</u>
Bonds	\$ 37,081,953		\$ 37,081,953
Common stocks	15,489,690		15,489,690
Real estate: Properties occupied by the company	14,280,583		14,280,583
Cash, cash equivalents and short-term investments	15,466,356		15,466,356
Receivables for securities	6,347		6,347
Investment income due and accrued	231,680		231,680
Uncollected premiums and agents' balances in the course of collection	475,475	16,149	459,325
Amounts receivable relating to uninsured plans	2,263,511	218,275	2,045,235
Electronic data processing equipment and software	8,887,829	7,161,204	1,726,625
Furniture and equipment, including health care delivery assets	491,950	491,950	
Receivables from parent, subsidiaries and affiliates	22,910		22,910
Health care and other amounts receivable	312,121		312,121
Prepaid expenses and deposits	1,374,861	1,374,861	
Total Assets	\$ 96,385,265	\$ 9,262,440	\$ 87,122,825

LIABILITIES AND SURPLUS

Claims unpaid		\$ 5,813,690
Accrued medical incentive pool and bonus amounts		2,912,367
Unpaid claims adjustment expenses		459,081
Aggregate health policy reserves		940,559
Premiums received in advance		1,710,724
General expenses due or accrued		6,747,815
Amounts due to parent, subsidiaries and affiliates		178,026
Liability for amounts held under uninsured plans		202,650
Other liabilities		837,392
Payable to public benefit fund		4,643,560
Total Liabilities		\$ 24,445,864
Unassigned funds (surplus)		\$ 62,676,961
Total Surplus		\$ 62,676,961
Total Liabilities and Surplus		\$ 87,122,825

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN SURPLUS ACCOUNT

REVENUE AND EXPENSES

Net premium income	\$ 152,943,282
Total Revenue	\$ 152,943,282
Hospital/medical benefits	\$ 104,948,879
Incentive pool, withhold adjustments and bonus amounts	2,703,687
Net reinsurance recoveries	(17,109,809)
Claims adjustment expenses	5,948,357
General administrative expenses	19,853,443
Increase (decrease) in reserves for health contracts	<u>(350,425)</u>
Total Underwriting Deductions	\$ 150,213,750
Net Underwriting Gain	\$ 2,729,532
Net investment income earned	\$ 2,266,089
Net realized capital gains	740
DeltaUSA Expense	(54,010)
Other Income	<u>960</u>
Net Income Before Federal Income Taxes	\$ 4,943,312
Federal income taxes incurred	<u>172</u>
Net Income	<u>\$ 4,943,140</u>

CHANGES IN SURPLUS ACCOUNT

Surplus, December 31, 2015	<u>\$ 63,952,373</u>
Net income	\$ 4,943,140
Change in net unrealized capital gains (losses)	1,264,479
Change in non-admitted assets	<u>(7,483,031)</u>
Net Change in Surplus	<u>\$ (1,275,412)</u>
Surplus, December 31, 2016	<u>\$ 62,676,961</u>

STATEMENT OF CASH FLOWS

CASH FROM OPERATIONS

Premiums collected net of reinsurance	\$ 152,503,520	
Net investment income	2,645,392	
Miscellaneous income (expenses)	(53,050)	
Total		\$ 155,095,862
Benefit and loss related payments	\$ 128,979,058	
Commissions, expenses paid and other deductions	18,526,703	
Federal and foreign income taxes paid, net	172	
Total		\$ 147,505,933
Net cash from operations		\$ 7,589,929

CASH FROM INVESTMENTS

Proceeds from investments sold, matured or repaid:		
Bonds	\$ 6,720,163	
Stocks	2,675,570	
Total investment proceeds		\$ 9,395,733
Cost of investments acquired (long-term only):		
Bonds	\$ 7,808,140	
Stocks	3,333,836	
Miscellaneous applications	5,579	
Total investments acquired		\$ 11,147,555
Net cash used for investments		\$ (1,751,822)

CASH FROM FINANCING AND MISCELLANEOUS SOURCES

Cash provided (applied):		
Other cash provided	\$ 1,526,545	
Net cash from financing and miscellaneous sources		\$ 1,526,545

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments		\$ 7,364,652
Cash and short-term investments:		
Beginning of year		\$ 8,101,703
End of year		\$ 15,466,356

CONCLUSION

The cooperation and assistance extended by the officers and employees of the Company during the course of this examination is hereby acknowledged.

In addition to the undersigned, Bouavan Kha, Janet Jones, Kathleen Madsen and Bob Wong, CFE (Information Systems Specialist), examiners for the Iowa Insurance Division, participated in the examination and the preparation of this report.

Respectfully submitted,

/s/ Thomas Allen _____
Thomas Allen, CFE
Examiner-in-Charge
Assurity Resources, Inc. on behalf of the
Iowa Insurance Division

/s/ Daniel Mathis _____
Daniel Mathis, CFE
Supervisor and Assistant Chief Examiner
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