REPORT OF INDEPENDENT AUDITORS
AND CONSOLIDATED FINANCIAL STATEMENTS

MILLIMAN, INC.

December 31, 2020 and 2019

MOSSADAMS

Table of Contents

MOSSADAMS

Report of Independent Auditors

To the Shareholders of
Milliman, Inc.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Milliman, Inc., which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Milliman, Inc. as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Seattle, Washington
April 27, 2021

ASSETS

	December 31, 2020	December 31, 2019
CURRENT ASSETS		
Cash and cash equivalents	$ 57,023,103	$ 48,158,822
Receivables and unbilled revenue		
Client receivables	144,318,436	139,489,569
Unbilled revenue and client advances	148,814,837	150,717,640
Related party advances	171,404	242,382
Less allowance for doubtful accounts	(50,000,000)	(50,000,000)
Total receivables and unbilled revenue, net	243,304,677	240,449,591
Prepaid expenses, deposits, and other current assets	18,665,843	17,372,485
Income tax receivable	5,449,000	1,650,000
Total current assets	324,442,623	307,630,898
PROPERTY AND EQUIPMENT, net	38,969,210	43,489,581
INTANGIBLE ASSETS, net	1,259,934	308,416
GOODWILL, net	6,807,041	1,721,663
OTHER ASSETS		
Investments	692,914	779,818
Long-term deposits	2,981,565	2,824,021
Total other assets	3,674,479	3,603,839
	$ 375,153,287	$ 356,754,397

LIABILITIES AND SHAREHOLDERS' EQUITY

	2020	2019
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 139,098,819	$ 139,659,448
Current portion of notes payable under lines of credit and long-term debt	69,558,119	39,733,905
Cash disbursements in excess of deposits	906,360	7,669,910
Deferred revenue	33,221,525	27,872,675
Total current liabilities	242,784,823	214,935,938
NOTES PAYABLE UNDER LINES OF CREDIT AND LONG-TERM DEBT, net of current portion	12,819,669	11,697,209
DEFERRED INCOME TAX LIABILITIES	26,069,000	27,536,000
DEFERRED RENT	12,036,126	12,194,185
Total liabilities	293,709,618	266,363,332
COMMITMENTS AND CONTINGENCIES (Notes 9 and 13)		
SHAREHOLDERS' EQUITY		
Milliman Inc. shareholders' equity		
Class A voting common stock, $40 par value, 20,000 shares authorized, 11,520 and 10,870 shares issued and outstanding	460,800	434,800
Class B nonvoting common stock, $40 par value, 20,000 shares authorized, 7,500 and 7,100 shares issued and outstanding	300,000	284,000
Class C nonvoting common stock, $40 par value, 400 shares authorized, 0 and 0 shares issued and outstanding	-	-
Additional paid-in capital	3,043,200	2,875,200
Retained earnings	77,233,159	87,135,454
Accumulated other comprehensive loss	(816,749)	(1,489,595)
Total Milliman, Inc. shareholders' equity	80,220,410	89,239,859
Noncontrolling interest	1,223,259	1,151,206
	81,443,669	90,391,065
	$ 375,153,287	$ 356,754,397

See accompanying notes.

Milliman, Inc.
Consolidated Statements of Operations

	Years Ended December 31, 2020	2019
OPERATING REVENUES	$ 1,307,279,631	$ 1,230,449,001
OPERATING EXPENSES	1,320,019,558	1,213,374,732
OPERATING (LOSS) INCOME	(12,739,927)	17,074,269
OTHER INCOME (LOSS), net	955,489	(1,945,905)
INCOME FROM EQUITY METHOD INVESTEE	8,836	3,831
(LOSS) INCOME FROM OPERATIONS BEFORE INCOME TAX BENEFIT (EXPENSE)	(11,775,602)	15,132,195
INCOME TAX BENEFIT (EXPENSE)	2,098,000	(7,800,000)
(LOSS) INCOME FROM OPERATIONS	(9,677,602)	7,332,195
LESS (INCOME) LOSS ATTRIBUTABLE TO NONCONTROLLING INTEREST	(72,053)	34,938
(LOSS) INCOME ATTRIBUTABLE TO MILLIMAN, INC.	$ (9,749,655)	$ 7,367,133

See accompanying notes.

	Years Ended December 31, 2020	2019
NET (LOSS) INCOME	$ (9,677,602)	$ 7,332,195
OTHER COMPREHENSIVE INCOME (LOSS)		
Foreign currency translation adjustment	672,846	(33,934)
COMPREHENSIVE (LOSS) INCOME	$ (9,004,756)	$ 7,298,261

Milliman, Inc.
Consolidated Statements of Changes in Shareholders' Equity

	Class A Number of Shares	Class A Common Stock	Class B Number of Shares	Class B Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total
BALANCE, December 31, 2018	10,800	$ 432,000	6,950	$ 278,000	$ 2,840,000	$ 70,466,670	$ (1,455,661)	$ 1,186,144	$ 73,747,153
Net income	-	-	-	-	-	7,367,133	-	(34,938)	7,332,195
Cumulative effect of change in accounting principle related to revenue recognition, net of tax	-	-	-	-	-	9,449,000	-	-	9,449,000
Foreign currency translation adjustment	-	-	-	-	-	-	(33,934)	-	(33,934)
Stock issued	660	26,400	550	22,000	193,600	-	-	-	242,000
Stock repurchased	(590)	(23,600)	(400)	(16,000)	(158,400)	-	-	-	(198,000)
Dividends paid ($8 per share)	-	-	-	-	-	(147,349)	-	-	(147,349)
BALANCE, December 31, 2019	10,870	434,800	7,100	284,000	2,875,200	87,135,454	(1,489,595)	1,151,206	90,391,065
Net (loss) income	-	-	-	-	-	(9,749,655)	-	72,053	(9,677,602)
Foreign currency translation adjustment	-	-	-	-	-	-	672,846	-	672,846
Stock issued	1,150	46,000	700	28,000	296,000	-	-	-	370,000
Stock repurchased	(500)	(20,000)	(300)	(12,000)	(128,000)	-	-	-	(160,000)
Dividends paid ($8 per share)	-	-	-	-	-	(152,640)	-	-	(152,640)
BALANCE, December 31, 2020	11,520	$ 460,800	7,500	$ 300,000	$ 3,043,200	$ 77,233,159	$ (816,749)	$ 1,223,259	$ 81,443,669

See accompanying notes.

	Years Ended December 31, 2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	$ (9,677,602)	$ 7,332,195
Adjustments to reconcile net (loss) income to net cash provided by operating activities		
Depreciation and amortization	12,123,159	12,151,472
Deferred income taxes	(1,467,000)	6,598,000
Change in allowance for doubtful accounts	-	6,000,000
Loss on disposals of property and equipment	682,955	-
Earnings from equity method investee	(8,836)	(3,831)
Effect of change in accounting principle, net of tax	-	9,449,000
Cash provided by (used in) changes in operating assets and liabilities		
Receivables and unbilled revenue	(2,855,086)	(26,838,924)
Prepaid expenses, deposits and other current assets	(1,293,358)	(156,063)
Income taxes receivable/payable	(3,799,000)	817,815
Long-term deposits	(157,544)	1,404,840
Cash disbursements in excess of deposits	(6,763,550)	7,669,910
Accounts payable and accrued liabilities	(975,199)	18,504,510
Deferred revenue	5,348,850	(16,440,706)
Deferred rent	(158,059)	540,932
Net cash from (used in) operating activities	(9,000,270)	27,029,150
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(6,858,125)	(13,175,838)
Purchases of intangible assets and goodwill	(7,049,944)	-
Investments and advances	95,740	104,531
Net cash used in investing activities	(13,812,329)	(13,071,307)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable and long-term debt	172,061,240	133,466,382
Payments on notes payable and long-term debt	(141,114,566)	(141,076,066)
Proceeds from issuance of common stock	370,000	242,000
Repurchase of common stock	(160,000)	(198,000)
Dividends paid	(152,640)	(147,349)
Net cash from (used in) financing activities	31,004,034	(7,713,033)
EFFECTS OF FOREIGN CURRENCY TRANSLATION ON CASH	672,846	(33,934)
NET CHANGE IN CASH AND CASH EQUIVALENTS	8,864,281	6,210,876
CASH AND CASH EQUIVALENTS		
Beginning of year	48,158,822	41,947,946
End of year	$ 57,023,103	$ 48,158,822

See accompanying notes.

Note 1 – Organization and Summary of Significant Accounting Policies

Organization – Milliman, Inc. (the Company) is an international company that provides consulting, actuarial, and allied services, including calculation of insurance risks and premiums in the areas of life insurance, property and casualty insurance, employee benefits, and healthcare. The Company was incorporated in the state of Washington in 1957.

Principles of consolidation – The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation.

Cash and cash equivalents – The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Revenue recognition – On January 1, 2019, the Company adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers* (ASC 606) by applying the modified retrospective approach to those contracts which were not completed as of January 1, 2019.

The cumulative impact of adopting Topic 606 on January 1, 2019, was an increase in retained earnings of approximately $9,449,000 which is presented net of income tax expense. Under the modified retrospective method, the Company was not required to restate comparative financial information prior to the adoption of these standards and, therefore, such information presented prior to January 1, 2019, continues to be reported under the Company's previous accounting policies.

The Company generates the majority of its revenues from providing professional services under two types of billing arrangements: time-and-expense and fixed-fee. The Company's contracts with customers for professional services typically consist of a single performance obligation as the services provided are highly integrated within the context of the contracts. Revenue is recognized when evidence that an arrangement exists, the related services have been provided, the price is fixed or determinable, and collectability is reasonably assured. If at the outset of an arrangement management determines that the arrangement fee is not fixed or determinable, revenue is deferred until all criteria for recognizing revenue are met. Provisions are recorded for the estimated realization adjustments on all engagements. Invoices are typically presented monthly as work progresses or based on pre-established milestones and are due in 30 days.

Time-and-expense billing arrangements require the client to pay based on the number of hours worked by revenue-generating professionals at contractually agreed-upon rates. The Company recognizes revenues for professional services rendered under time-and-expense engagements based on the hours incurred at agreed-upon rates as work is performed. In some cases, time-and-expense arrangements are subject to a cap, in which case management assesses the work performed on a periodic basis to ensure that the cap has not been exceeded.

In fixed-fee billing arrangements, a pre-established fee is agreed to for the engagement of specified professional services. These contracts are for varying periods and generally permit the client to cancel the contract before the end of the term. Revenues are recognized over time as the services are performed.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

The Company recognizes revenues for professional services performed under fixed fee billing arrangements on a monthly basis over the specified contract term or, in certain cases, revenue is recognized on the proportional performance method of accounting based on the estimated percentage of completion for the engagement. The estimated percentage of completion is based on labor hours incurred as a percentage of total estimated labor hours for the contract.

Reimbursed expenses, which include travel, out-of-pocket expenses, outside consultants, and other similar costs are generally included in revenues, and an equivalent amount of reimbursable expenses is included in costs of services in the period in which the expense is incurred. Revenues recognized but not yet billed to clients, have been recorded as unbilled revenues within receivables on the accompanying consolidated balance sheets.

The Company also generates revenue through the following: (1) cloud-based subscription revenue, which allows clients to use hosted software over the contract period without taking possession of the software is comprised of subscription fees from customers utilizing the Company's software and give clients access to the ordered subscription service, related support, and updates, if any, to the subscribed service, (2) consulting services related to the hosted software arrangements, which consist of fees associated with implementation, data migration, training, and other services, plus reimbursable expenses, and (3) revenue for software license fees where customers take physical possession of the software license when it is installed on-site and the related installation and training related to the software license. Revenue for cloud-based subscription revenue and consulting services related to the hosted software arrangements consist of multiple performance obligations as further discussed below. Revenue for software license fees, installation and training consist of one performance obligation as the services provided are highly integrated within the context of the contracts. Revenue for software licenses are generally recognized at a point in time upon billing and revenue for maintenance and support is typically recognized over time as the services are performed.

Multiple performance obligations – The Company's contracts with clients for cloud-based subscription revenue and related consulting services often include promises to transfer multiple products and services. Determining whether products and services are considered distinct performance obligations that should be accounted for separately from one another sometimes requires judgment. Performance obligations are considered distinct if they are both capable of being distinct individually and distinct within the context of the contract. In determining whether performance obligations meet the criteria for being distinct, management considers a number of factors, such as the degree of interrelation and interdependence between obligations, and whether or not the good or service significantly modifies or transforms another good or service in the contract. The cloud-based subscription and consulting services are both determined to be distinct performance obligations and the transaction price is allocated to each performance obligation based on their estimated standalone selling prices. Subscription revenue is recognized over time over the subscription period. The duration of the Company's client contracts varies, but typically range from twelve to thirty-six months. The transaction price is allocated to consulting services using observable hourly rates and recognized over time using the input method as the services are delivered based on actual hours worked.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Contract costs – Additionally, the Company has evaluated ASC Topic 340 - *Other Assets and Deferred Cost* (Topic 340) which requires companies to defer certain incremental costs to obtain customer contracts, and certain costs to fulfill client contracts. The Company has determined that they incur no significant costs of obtaining client contracts such as commissions and therefore the adoption of Topic 340 did not have a significant impact on the Company's consolidated financial statements.

Unbilled revenue and deferred revenue – Unbilled revenue and deferred revenue are considered contract assets and liabilities, respectively. Contract assets represent accumulated charges that have not been billed as of year-end. Such amounts are reclassified to accounts receivable when billed under the terms of the contract. Contract liabilities consist of deferred revenue. Deferred revenue consists of prepayments of software maintenance contracts and amounts collected from clients in advance of services provided. The revenue is recognized as the related performance obligations are satisfied. Contract assets and liabilities are reported in a net position on a contract-by-contract basis at the end of each reporting period. There were no substantial non-current contract assets or liabilities for the periods presented.

Receivables – Client receivables consist of billed amounts due from clients. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Client receivables and unbilled revenue are written off when determined to be uncollectible and recoveries of amounts previously written off are reported as income when received.

Property and equipment – Property and equipment are stated at cost, net of accumulated depreciation and amortization. Leasehold improvements are amortized utilizing the straight-line method over the shorter of the estimated useful life of the asset or respective lease term. The Company provides for depreciation of property and equipment, using the double-declining balance method over the following estimated useful lives:

Computers and electronic equipment	5 years
Telephone equipment	5 years
Office furniture	7 years

Intangible assets – Intangible assets represent customer lists and are amortized over periods from 3 to 20 years from the date of acquisition.

Goodwill – The Company adheres to the accounting alternative provided by FASB Accounting Standards Update (ASU) No. 2014-02, *Intangibles-Goodwill and Other (Topic 350): Accounting for Goodwill (a consensus of the Private Company Council)*.

Goodwill represents the difference between the purchase price of an acquired business and the fair value of the identifiable tangible and intangible net assets acquired. Under the accounting alternative, goodwill is amortized on a straight-line basis over ten years and assessed for impairment if an event or circumstances indicate that the fair value of the entity may be less than its carrying amount. A goodwill impairment loss is recognized to the extent the carrying amount of the entity including goodwill exceeds its fair value. There was no impairment of goodwill during 2020 or 2019.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Impairment of long-lived assets – In accordance with GAAP, long-lived assets, such as property and equipment, intangible assets and other assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. There were no impairments of long-lived assets during the years ended December 31, 2020 and 2019.

Investments – Investments consist of equity method investments where the Company is considered to have significant influence (generally greater than 20% ownership of the investee's equity), but not control, and are carried at the cost of acquisition plus the Company's equity in undistributed earnings or losses since acquisition.

Claims loss reserve – The Company receives professional liability insurance coverage through policies written directly and through reinsurance arrangements for amounts in excess of a self-insured retention layer. Actual costs for outstanding claims may vary from estimates based on trends of losses for filed claims and claims estimated to be incurred but not yet filed. Estimated losses and costs of these self-insurance programs are accrued, based on management's best estimate of the Company's exposure. The recorded claims loss reserve liability was $14,000,000 and $10,000,000 at December 31, 2020 and 2019, respectively. This amount is included in accounts payable and accrued liabilities on the consolidated balance sheets (see Note 7).

Income taxes – The Company is a cash-basis taxpayer and accounts for income taxes using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement and tax basis of assets and liabilities at the applicable enacted tax rates. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company evaluates the realizability of its deferred tax assets by assessing its valuation allowance and by adjusting the amount of such allowance, if necessary.

The Company recognizes the tax benefits from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

Translation of foreign currencies – Assets and liabilities of foreign subsidiaries are translated to U.S. dollars at the year-end exchange rate; income and expenses are translated at the average exchange rates for the year. The related translation adjustments are reflected in the foreign currency translation line of the consolidated statements of shareholders' equity and statements of comprehensive income (loss).

Retained earnings – Included in retained earnings is undistributed capital of active equity principals, net of taxes. Future distributions of retained earnings are dependent upon board approval, future cash collections and are restricted by current debt covenants (see Note 8).

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Fair value of financial instruments – Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The carrying amounts of cash and cash equivalents, client receivables, accounts payable, accrued expenses, notes payable under lines of credit and long-term debt approximate their fair values due to the short maturity or liquidity of those instruments or because the instruments are subject to variable interest rates.

Concentration of credit risk – Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, client receivables and unbilled revenue. Cash and cash equivalents consist of deposits and money market funds. Concentrations of credit risk with respect to client receivables and unbilled revenue are limited as the Company has a large number of clients that are dispersed across many industries and geographic areas. The Company monitors concentrations of credit risk with respect to accounts receivable by performing credit evaluations on customers and, at times, will request retainers.

Approximately 87% and 88% of the Company's revenues were generated by its United States-based operations from a diverse client base during 2020 and 2019, respectively.

Sales and value-added taxes – The Company presents taxes collected from customers and remitted to governmental authorities on a net basis within the consolidated statements of operations.

Use of estimates – The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and the accompanying notes. Actual results could differ from those estimates.

Risks and uncertainties – On March 11, 2020, the World Health Organization (WHO) classified the COVID-19 outbreak as a pandemic, triggering volatility in financial markets and a significant negative impact on the global economy. The Company immediately moved to a work remotely model to address this challenge, protecting their employees and continuing to provide full service to their clients. This allowed the continued success and growth of the Company, with a growth in revenue of 6.2%. The full impact of the COVID-19 outbreak continues to evolve as of the date of the audit report.

Recent accounting pronouncement – In February 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-02, *Leases*, which provides new guidelines that change the accounting for leasing arrangements. ASU 2016-02 primarily changes the accounting for lessees, requiring lessees to record assets and liabilities on the balance sheet for most leases. In May 2020 the FASB approved the deferral of the effective date for private entities. ASU 2016-02 is now effective for private entities for annual reporting periods beginning on or after December 15, 2021, with earlier adoption permitted. The Company is currently evaluating the impact of the standard on the consolidated financial statements.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Subsequent events – Subsequent events are events or transactions that occur after the consolidated balance sheet date but before the consolidated financial statements are available to be issued. The Company recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated balance sheet, including the estimates inherent in the process of preparing the consolidated financial statements. The Company's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated balance sheet but arose after the consolidated balance sheet date and before the consolidated financial statements are available to be issued.

The Company has evaluated subsequent events through April 27, 2021, which is the date the consolidated financial statements were available to be issued.

Note 2 – Prepaid Expenses, Deposits, and Other Current Assets

Prepaid expenses, deposits, and other current assets consist of the following at December 31:

	2020	2019
Prepaid insurance	$ 8,842,620	$ 8,550,536
Deposits and other assets	9,823,223	8,821,949
	$ 18,665,843	$ 17,372,485

Note 3 – Property and Equipment

Property and equipment consist of the following at December 31:

	2020	2019
Furniture and equipment	$ 67,424,739	$ 70,522,163
Leasehold improvements	59,168,944	55,747,643
Construction in progress	2,436,898	4,928,475
	129,030,581	131,198,281
Accumulated depreciation and amortization	(90,061,371)	(87,708,700)
Property and equipment, net	$ 38,969,210	$ 43,489,581

Depreciation and amortization expense was $11,110,111 and $11,052,160 for 2020 and 2019, respectively.

Note 4 – Intangible Assets

The following table reflects changes in the net carrying amount of the customer lists for the years ended December 31:

	2020	2019
Gross carrying amount	$ 12,907,201	$ 11,772,207
Accumulated amortization	(11,647,267)	(11,463,791)
Customer lists, net	$ 1,259,934	$ 308,416

Aggregate amortization expense for customer lists was $183,476 and $529,946 for 2020 and 2019, respectively.

The Company expects amortization expense for each year to be as follows:

2021	$ 244,644
2022	244,644
2023	189,644
2024	162,144
2025	162,144
Thereafter	256,714
	$ 1,259,934

Note 5 – Goodwill

Goodwill consists of the following at December 31:

	2020	2019
Gross carrying amount	$ 11,608,599	$ 5,693,649
Accumulated amortization	(4,801,558)	(3,971,986)
Goodwill, net	$ 6,807,041	$ 1,721,663

Aggregate amortization expense for goodwill was $829,572 and $569,366 for the years ended December 31, 2020 and 2019, respectively.

The Company expects goodwill amortization expense for each year to be as follows:

2021	$ 1,160,861
2022	1,160,852
2023	605,069
2024	591,495
2025	591,495
Thereafter	2,697,269
	$ 6,807,041

Note 6 – Investments

Professional Consultants Insurance Company, Inc. – Professional Consultants Insurance Company, Inc. (PCIC) was organized in 1987 as a captive insurance company under the laws of the State of Vermont. Through June 30, 2010, PCIC provided professional liability insurance on a claims-made basis to a group of actuarial and management consulting firms, all of which participated in the program as both policyholders and shareholders.

PCIC ceased issuing insurance policies effective July 1, 2010, based on an election by the shareholders to liquidate PCIC. Therefore, during 2020 and 2019, the Company paid no insurance premiums to PCIC. Accordingly, the Company began obtaining other insurance coverage at that time and has chosen to have a larger self-insured retention than it had under the previous structure. PCIC has been placed in run-off mode, and once all remaining claims are resolved any residual assets will be distributed to the shareholders.

The Company's ownership interest in PCIC was 27.13% as of December 31, 2020 and 2019. The investment balance at December 31, 2020 and 2019, was $1,039,183 and $1,030,347, respectively, and is recorded in other assets on the consolidated balance sheets.

The Company accounts for its investment in PCIC as an equity-method investment. The Company's proportionate share of PCIC's net profit was $8,836 and $3,831 in 2020 and 2019, respectively, and these amounts are included in income from equity method investee in the accompanying consolidated statements of operations.

MBWL International – The Company entered into a joint venture in April 2017 with Barnett Waddingham and Lurse, UK and Germany based providers of actuarial services, administration and consultancy services. The investment was in a deficit position of $387,739 and $250,529 as of December 31, 2020 and 2019, respectively. The Company's share of the joint venture results is included in Other Assets on the accompanying consolidated balance sheets.

Note 7 – Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following at December 31:

	2020	2019
Accounts payable	$ 25,000,000	$ 25,000,000
Accrued profit sharing	33,236,258	30,990,041
Accrued vacation	21,321,415	17,820,326
Accrued bonuses	15,987,420	28,734,005
Sales and value added taxes	4,100,236	4,382,260
Tenant improvement allowance	15,871,516	18,298,301
Claims Loss Reserve	14,000,000	10,000,000
Other	9,581,974	4,434,515
	$ 139,098,819	$ 139,659,448

Note 8 – Notes Payable under Lines of Credit and Long Term Debt

The Company has a line of credit that provides for maximum borrowings of $85,000,000 at LIBOR plus 1.15% (1.29% and 2.91% at December 31, 2020 and 2019, respectively) and expires in June 2022. This line is collateralized by the Company's client receivables. This line has variable limitations on borrowings and is reserved for undrawn letters of credit totaling $515,984 (see Note 12). Outstanding borrowings on this line at December 31, 2020 and 2019, were $61,758,119 and $31,933,904, respectively and are due in June 2022. The full balance is presented as current and is based on management's expectations of the amount that will be paid in the following year.

The Company has another revolving line of credit note with a bank to finance equipment purchases and leasehold improvements. This note provides for maximum borrowings up to $30,000,000 and expires in June 2022. This line is collateralized by the Company's client receivables. The note bears interest at LIBOR plus 1.15% (1.29% and 2.91% at December 31, 2020 and 2019, respectively) and requires monthly principal and interest payments. The balance outstanding under this note was $20,619,669 and $19,497,210, which includes the current portion of $7,800,000 for years ended December 31, 2020 and 2019. The current portion of this revolving line of credit note is based on management's expectations of the amount that will be paid in the following year. The remaining portion is due in June 2022.

The Company's credit agreements require that the Company maintain certain minimum financial ratios.

Note 9 – Leases

The Company leases office space and equipment under various noncancelable operating leases. The aggregate future minimum obligations under these leases are as follows:

2021	$ 28,915,006
2022	27,012,276
2023	26,187,300
2024	26,316,126
2025	26,328,409
Thereafter	115,936,267
	$ 250,695,384

The Company has been granted tenant improvement allowances from various lessors. These amounts are presented as a liability on the consolidated balance sheets and amortized against rent expense over the remaining lease term. As of December 31, 2020 and 2019, the Company had $15,871,516 and $18,298,301, respectively, of unamortized tenant improvement allowances. Rent expense, net of tenant improvement allowances, was $33,717,887 and $33,454,188 in 2020 and 2019, respectively. The Company had several lease agreements, which provided for rent holidays or escalating rental payments. At December 31, 2020 and 2019, deferred rent of $12,036,126 and $12,194,185, respectively, was recorded by the Company to account for rent escalations and will be amortized over the term of the relevant leases.

Note 10 – Income Taxes

The significant temporary differences between the financial statements and tax basis of assets and liabilities are associated with client receivables and unbilled revenue, accounts payable, accrued liabilities, deferred revenue, deferred compensation, net operating losses and depreciation of property and equipment.

Deferred tax assets and liabilities are recorded net of valuation allowances of approximately $4,536,000 and $4,400,000 at December 31, 2020 and 2019, respectively, and consist of the following:

	Total
December 31, 2020	
Deferred tax assets	$ 35,454,000
Deferred tax liabilities	(61,523,000)
Net deferred income tax liability	$ (26,069,000)
December 31, 2019	
Deferred tax assets	$ 32,372,000
Deferred tax liabilities	(59,908,000)
Net deferred income tax liability	$ (27,536,000)

The deferred tax liability beginning balance for the year ending December 31, 2019, was impacted by the adoption of FASB ASC Topic 606, *Revenue from Contracts with Customers* which is described in Note 1. The $9.5 million increase to retained earnings resulting from the adoption of ASC 606 is net of tax and includes a reduction to deferred income tax expense of $3.251 million.

For primarily all deferred tax assets, no valuation allowance is deemed necessary, based upon the estimated future taxable income from the reversal of existing temporary differences. The Company does have a valuation allowance related to certain foreign net operating losses that begin to expire in 2020.

The components of income tax expense (benefit) were as follows:

	2020	2019
Current	$ (631,000)	$ 4,453,000
Deferred	(1,467,000)	3,347,000
	$ (2,098,000)	$ 7,800,000

Note 10 – Income Taxes (continued)

A reconciliation between the income tax provision at statutory rates and the recorded provision is as follows for the years ended December 31:

	2020	2019
Income tax provision at statutory rate	$ (2,473,000)	$ 3,178,000
Permanent differences	681,000	1,751,000
True-up related to foreign operations	(343,000)	874,000
Basis adjustment for fixed assets	-	719,000
Return to provision true-up	-	456,000
Valuation allowance	214,000	274,000
State tax provision, net of federal provision	(552,000)	695,000
Change in state effective rate	375,000	(147,000)
	$ (2,098,000)	$ 7,800,000

The Company had no liability for uncertain tax positions as of December 31, 2020 and 2019. The Company recognizes interest accrued and penalties related to uncertain tax positions as a component of tax expense. During the years ended December 31, 2020 and 2019, the Company recognized no interest and penalties.

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions.

Note 11 – Deferred Revenue

Deferred revenue consists of the following at December 31:

	2020	2019
Prepayments of licensing fees and maintenance contracts	$ 11,139,878	$ 8,486,062
Amounts collected from customers in advance of services provided	22,081,647	19,386,613
	$ 33,221,525	$ 27,872,675

Note 12 – Letters of Credit

Letters of Credit – The Company has three outstanding letters of credit, totaling $515,984, under an existing line of credit facility to guarantee payment in the event the Company fails to meet its financial obligation to the beneficiaries. During 2020, there were no events of default that would require satisfaction of the guarantees described above.

Note 13 – Commitments and Contingencies

Contingent payments – The Company periodically acquires business from external entities and typically agrees to pay the seller a fixed percentage of revenues generated from future services for a specific time period. The liability for future potential earnouts is considered to be immaterial to the consolidated financial statements as a whole.

The Company may also agree to pay retiring equity principals a percentage of revenue earned from those equity principal's former client base after retirement. At December 31, 2020, there were several agreements in place to pay a percentage of future revenues earned to retired equity principals with the last expiration date for payment being December 2029. During 2020 and 2019, the Company made payments to the retired equity principals of $36,878,031 and $31,957,288, respectively.

Legal matters – The Company is involved from time to time in claims, proceedings and litigation arising from its business. The Company does not believe that any such claims, proceedings or litigation, either alone or in the aggregate, will have a material adverse effect on the Company's financial position or results of its operations.

Note 14 – Profit Sharing Plan

The Company has a non-discriminatory, defined contribution profit sharing plan (the Plan) for U.S. employees. Contributions to the Plan are discretionary and are determined annually by the Board of Directors of the Company. Participants are also allowed to make voluntary contributions, to which the Company matches 50% thereof, up to a certain percentage of an employee's annual salary. During 2020 and 2019, the Company's expense related to the Plan was approximately $42,000,000 and $39,500,000, respectively.

Note 15 – Supplemental Cash Flow Information

Cash paid for interest during 2020 and 2019 was $919,598 and $1,246,697, respectively. The Company made income tax payments of $1,443,000 and $1,400,000 during 2020 and 2019, respectively.

Note 16 – Supplemental Operating Expense Information

Operating expenses consist of the following at December 31:

	2020	2019
Employee compensation	$ 839,613,831	$ 731,993,923
Employee benefits	85,424,917	76,869,130
Rent	33,717,887	33,454,186
Depreciation/amortization	12,123,159	12,151,473
Client reimbursable expenses	44,746,804	51,055,777
Other	304,392,960	307,850,243
Total operating expenses	$1,320,019,558	$1,213,374,732

MOSSADAMS