



REPORT OF INDEPENDENT AUDITORS
AND CONSOLIDATED FINANCIAL STATEMENTS

MILLIMAN, INC.

December 31, 2021 and 2020

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Report of Independent Auditors

The Shareholders of
Milliman, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Milliman, Inc., which comprise the consolidated balance sheets as of December 31, 2021 and 2020, 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.

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Mass Adams LLP

Seattle, Washington

April 26, 2022

Milliman, Inc.
Consolidated Balance Sheets

ASSETS

	December 31,	
	<u>2021</u>	<u>2020</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 66,049,449	\$ 57,023,103
Receivables and unbilled revenue		
Client receivables	154,941,953	144,318,436
Unbilled revenue and client advances	151,682,487	148,814,837
Related party advances	248,877	171,404
Less allowance for doubtful accounts	<u>(53,000,000)</u>	<u>(50,000,000)</u>
Total receivables and unbilled revenue, net	<u>253,873,317</u>	<u>243,304,677</u>
Prepaid expenses, deposits, and other current assets	18,090,222	18,665,843
Income tax receivable	<u>-</u>	<u>5,449,000</u>
Total current assets	<u>338,012,988</u>	<u>324,442,623</u>
PROPERTY AND EQUIPMENT, net	<u>45,917,614</u>	<u>38,969,210</u>
INTANGIBLE ASSETS, net	<u>3,519,928</u>	<u>1,259,934</u>
GOODWILL, net	<u>7,959,533</u>	<u>6,807,041</u>
OTHER ASSETS		
Investments	580,646	692,914
Long-term deposits	<u>2,671,626</u>	<u>2,981,565</u>
Total other assets	<u>3,252,272</u>	<u>3,674,479</u>
	<u>\$ 398,662,335</u>	<u>\$ 375,153,287</u>

Milliman, Inc.
Consolidated Balance Sheets

LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31,	
	2021	2020
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 143,972,638	\$ 139,098,819
Current portion of notes payable under lines of credit and long-term debt	72,592,486	69,558,119
Cash disbursements in excess of deposits	401,772	906,360
Income tax payable	581,000	-
Deferred revenue	36,130,697	33,221,525
Total current liabilities	253,678,593	242,784,823
NOTES PAYABLE UNDER LINES OF CREDIT AND LONG-TERM DEBT, net of current portion	14,030,465	12,819,669
DEFERRED INCOME TAX LIABILITIES	25,030,000	26,069,000
DEFERRED RENT	11,971,170	12,036,126
Total liabilities	304,710,228	293,709,618
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	470,800	460,800
Class B nonvoting common stock, \$40 par value, 20,000 shares authorized, 7,500 and 7,100 shares issued and outstanding	300,000	300,000
Class C nonvoting common stock, \$40 par value, 400 shares authorized, 0 and 0 shares issued and outstanding	-	-
Additional paid-in capital	3,083,200	3,043,200
Retained earnings	90,464,353	77,233,159
Accumulated other comprehensive loss	(1,615,333)	(816,749)
Total Milliman, Inc. shareholders' equity	92,703,020	80,220,410
Noncontrolling interest	1,249,087	1,223,259
	93,952,107	81,443,669
	\$ 398,662,335	\$ 375,153,287

Milliman, Inc.
Consolidated Statements of Operations

	Years Ended December 31,	
	<u>2021</u>	<u>2020</u>
OPERATING REVENUES	\$ 1,404,803,155	\$ 1,307,279,631
OPERATING EXPENSES	<u>1,378,800,160</u>	<u>1,320,019,558</u>
OPERATING INCOME (LOSS)	26,002,995	(12,739,927)
OTHER (LOSS) INCOME, net	(3,487,497)	955,489
(LOSS) INCOME FROM EQUITY METHOD INVESTEE	<u>(10,452)</u>	<u>8,836</u>
INCOME (LOSS) FROM OPERATIONS BEFORE INCOME TAX BENEFIT (EXPENSE)	22,505,046	(11,775,602)
INCOME TAX BENEFIT (EXPENSE)	<u>(9,096,000)</u>	<u>2,098,000</u>
INCOME (LOSS) FROM OPERATIONS	<u>13,409,046</u>	<u>(9,677,602)</u>
LESS INCOME ATTRIBUTABLE TO NONCONTROLLING INTEREST	<u>(25,828)</u>	<u>(72,053)</u>
INCOME (LOSS) ATTRIBUTABLE TO MILLIMAN, INC.	<u>\$ 13,383,218</u>	<u>\$ (9,749,655)</u>

Milliman, Inc.
Consolidated Statements of Comprehensive Income (Loss)

	Years Ended December 31,	
	<u>2021</u>	<u>2020</u>
NET INCOME (LOSS)	\$ 13,409,046	\$ (9,677,602)
OTHER COMPREHENSIVE INCOME (LOSS)		
Foreign currency translation adjustment	<u>(798,584)</u>	<u>672,846</u>
COMPREHENSIVE INCOME (LOSS)	<u>\$ 12,610,462</u>	<u>\$ (9,004,756)</u>

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, 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
Net income	-	-	-	-	-	13,383,218	-	25,828	13,409,046
Foreign currency translation adjustment	-	-	-	-	-	-	(798,584)	-	(798,584)
Stock issued	900	36,000	500	20,000	224,000	-	-	-	280,000
Stock repurchased	(650)	(26,000)	(500)	(20,000)	(184,000)	-	-	-	(230,000)
Dividends paid (\$8 per share)	-	-	-	-	-	(152,024)	-	-	(152,024)
BALANCE, December 31, 2021	<u>11,770</u>	<u>\$ 470,800</u>	<u>7,500</u>	<u>\$ 300,000</u>	<u>\$ 3,083,200</u>	<u>\$ 90,464,353</u>	<u>\$ (1,615,333)</u>	<u>\$ 1,249,087</u>	<u>\$ 93,952,107</u>

Milliman, Inc.
Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 13,409,046	\$ (9,677,602)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	12,398,996	12,123,159
Deferred income taxes	(1,039,000)	(1,467,000)
Change in allowance for doubtful accounts	3,000,000	-
Loss on disposals of property and equipment	210,684	682,955
Loss (earnings) from equity method investee	10,452	(8,836)
Cash provided by (used in) changes in operating assets and liabilities		
Receivables and unbilled revenue	(13,568,640)	(2,855,086)
Prepaid expenses, deposits and other current assets	575,621	(1,293,358)
Income taxes receivable/payable	6,030,000	(3,799,000)
Long-term deposits	309,939	(157,544)
Accounts payable and accrued liabilities	1,857,126	(975,199)
Deferred revenue	2,909,172	5,348,850
Deferred rent	(64,956)	(158,059)
	<u>26,038,440</u>	<u>(2,236,720)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(14,964,014)	(6,858,125)
Purchases of intangible assets and goodwill	(4,989,863)	(7,049,944)
Investments and advances	101,816	95,740
	<u>(19,852,061)</u>	<u>(13,812,329)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable and long-term debt	216,068,288	172,061,240
Payments on notes payable and long-term debt	(211,823,125)	(141,114,566)
Proceeds from issuance of common stock	280,000	370,000
Repurchase of common stock	(230,000)	(160,000)
Cash disbursements in excess of deposits	(504,588)	(6,763,550)
Dividends paid	(152,024)	(152,640)
	<u>3,638,551</u>	<u>24,240,484</u>
EFFECTS OF FOREIGN CURRENCY TRANSLATION ON CASH	<u>(798,584)</u>	<u>672,846</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	9,026,346	8,864,281
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>57,023,103</u>	<u>48,158,822</u>
End of year	<u>\$ 66,049,449</u>	<u>\$ 57,023,103</u>

Milliman, Inc.

Notes to Consolidated Financial Statements

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 - 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.

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.

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

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.

Contract costs – Additionally, the Company has evaluated the Financial Accounting Standards Board (FASB) Accounting Standards Codification (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 provisions of Topic 340 do 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.

Milliman, Inc.

Notes to Consolidated Financial Statements

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

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 2021 or 2020.

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, 2021 and 2020.

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.

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

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 \$15,000,000 and \$14,000,000 at December 31, 2021 and 2020, 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).

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% of the Company's revenues were generated by its United States-based operations from a diverse client base during 2021 and 2020.

Milliman, Inc.

Notes to Consolidated Financial Statements

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

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.

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.

Reclassifications – Certain prior year amounts on the consolidated statement of cash flows have been reclassified to be in accordance with current year presentation. These reclassifications had no impact on net income or loss for either period.

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 26, 2022, 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:

	<u>2021</u>	<u>2020</u>
Prepaid insurance	\$ 9,447,225	\$ 8,842,620
Deposits and other assets	<u>8,642,997</u>	<u>9,823,223</u>
	<u>\$ 18,090,222</u>	<u>\$ 18,665,843</u>

Milliman, Inc.
Notes to Consolidated Financial Statements

Note 3 – Property and Equipment

Property and equipment consist of the following at December 31:

	<u>2021</u>	<u>2020</u>
Furniture and equipment	\$ 66,663,970	\$ 67,424,739
Leasehold improvements	61,878,744	59,168,944
Construction in progress	<u>8,223,896</u>	<u>2,436,898</u>
	136,766,610	129,030,581
Accumulated depreciation and amortization	<u>(90,848,996)</u>	<u>(90,061,371)</u>
Property and equipment, net	<u>\$ 45,917,614</u>	<u>\$ 38,969,210</u>

Depreciation and amortization expense was \$10,821,621 and \$11,110,111 for 2021 and 2020, 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:

	<u>2021</u>	<u>2020</u>
Gross carrying amount	\$ 15,547,970	\$ 12,907,201
Accumulated amortization	<u>(12,028,042)</u>	<u>(11,647,267)</u>
Customer lists, net	<u>\$ 3,519,928</u>	<u>\$ 1,259,934</u>

Aggregate amortization expense for customer lists was \$380,775 and \$183,476 for 2021 and 2020, respectively.

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

2022	\$ 621,897
2023	566,897
2024	539,397
2025	539,397
2026	539,397
Thereafter	<u>712,943</u>
	<u>\$ 3,519,928</u>

Milliman, Inc.

Notes to Consolidated Financial Statements

Note 5 – Goodwill

Goodwill consists of the following at December 31:

	<u>2021</u>	<u>2020</u>
Gross carrying amount	\$ 14,578,254	\$ 11,608,599
Accumulated amortization	<u>(6,618,721)</u>	<u>(4,801,558)</u>
Goodwill, net	<u>\$ 7,959,533</u>	<u>\$ 6,807,041</u>

Aggregate amortization expense for goodwill was \$1,196,600 and \$829,572 for the years ended December 31, 2021 and 2020, respectively.

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

2022	\$ 1,409,336
2023	826,405
2024	826,405
2025	826,405
2026	826,405
Thereafter	<u>3,244,577</u>
	<u>\$ 7,959,533</u>

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 2021 and 2020, 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, 2021 and 2020. The investment balance at December 31, 2021 and 2020, was \$1,028,731 and \$1,039,183, 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 (loss) was \$(10,452) and \$8,836 in 2021 and 2020, respectively, and these amounts are included in income from equity method investee in the accompanying consolidated statements of operations.

Note 6 – Investments (continued)

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 \$498,536 and \$387,739 as of December 31, 2021 and 2020, 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:

	2021	2020
Accounts payable	\$ 28,000,000	\$ 25,000,000
Accrued profit sharing	33,767,439	33,236,258
Accrued vacation	20,981,233	21,321,415
Accrued bonuses	15,605,911	15,987,420
Sales and value added taxes	4,666,495	4,100,236
Tenant improvement allowance	15,998,171	15,871,516
Claims Loss Reserve	15,000,000	14,000,000
Other	9,953,389	9,581,974
	\$ 143,972,638	\$ 139,098,819

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 \$100,000,000 at LIBOR plus 1.15% (1.25% and 1.29% at December 31, 2021 and 2020, respectively) and expires in June 2023. 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 \$476,000 (see Note 12). Outstanding borrowings on this line at December 31, 2021 and 2020, were \$64,792,486 and \$61,758,119, respectively and are due in June 2023. 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 \$26,000,000 and expires in June 2023. This line is collateralized by the Company's client receivables. The note bears interest at LIBOR plus 1.15% (1.25% and 1.29% at December 31, 2021 and 2020, respectively) and requires monthly principal and interest payments. The balance outstanding under this note was \$21,830,465 and \$20,619,669, which includes the current portion of \$7,800,000 for years ended December 31, 2021 and 2020. 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 2023.

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

Milliman, Inc.

Notes to Consolidated Financial Statements

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:

2022	\$ 29,638,527
2023	27,648,641
2024	28,025,003
2025	28,214,553
2026	27,675,051
Thereafter	<u>99,310,722</u>
	<u>\$ 240,512,497</u>

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, 2021 and 2020, the Company had \$15,998,172 and \$15,871,516, respectively, of unamortized tenant improvement allowances. Rent expense, net of tenant improvement allowances, was \$35,167,566 and \$33,717,887 in 2021 and 2020, respectively. The Company had several lease agreements, which provided for rent holidays or escalating rental payments. At December 31, 2021 and 2020, deferred rent of \$11,971,170 and \$12,036,126, 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 consolidated 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 \$4,488,000 and \$4,536,000 at December 31, 2021 and 2020, respectively, and consist of the following:

	<u>Total</u>
December 31, 2021	
Deferred tax assets	\$ 37,076,000
Deferred tax liabilities	<u>(62,106,000)</u>
Net deferred income tax liability	<u>\$ (25,030,000)</u>
December 31, 2020	
Deferred tax assets	\$ 35,454,000
Deferred tax liabilities	<u>(61,523,000)</u>
Net deferred income tax liability	<u>\$ (26,069,000)</u>

Milliman, Inc.
Notes to Consolidated Financial Statements

Note 10 – Income Taxes (continued)

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:

	<u>2021</u>	<u>2020</u>
Current	\$ 10,135,000	\$ (631,000)
Deferred	<u>(1,039,000)</u>	<u>(1,467,000)</u>
	<u>\$ 9,096,000</u>	<u>\$ (2,098,000)</u>

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

	<u>2021</u>	<u>2020</u>
Income tax provision at statutory rate	\$ 4,726,000	\$ (2,473,000)
Permanent differences	616,000	681,000
True-up related to foreign operations	3,191,000	(343,000)
Valuation allowance	(233,000)	214,000
State tax provision, net of federal provision	1,008,000	(552,000)
Change in state effective rate	<u>(212,000)</u>	<u>375,000</u>
	<u>\$ 9,096,000</u>	<u>\$ (2,098,000)</u>

The Company had no liability for uncertain tax positions as of December 31, 2021 and 2020. The Company recognizes interest accrued and penalties related to uncertain tax positions as a component of tax expense. During the years ended December 31, 2021 and 2020, 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:

	<u>2021</u>	<u>2020</u>
Prepayments of licensing fees and maintenance contracts	\$ 12,405,455	\$ 11,139,878
Amounts collected from customers in advance of services provided	<u>23,725,242</u>	<u>22,081,647</u>
	<u>\$ 36,130,697</u>	<u>\$ 33,221,525</u>

Milliman, Inc.

Notes to Consolidated Financial Statements

Note 12 – Letters of Credit

Letters of credit – The Company has one outstanding letter of credit, totaling \$476,000, 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 2021, 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 percentage of revenues or profits generated from future services for a specific time period. Future liabilities for potential earnouts, considered to be material to the consolidated financial statements as a whole, have been reflected in the statements.

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, 2021, 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 2030. During 2021 and 2020, the Company made payments to the retired equity principals of \$47,080,661 and \$36,878,031, 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 2021 and 2020, the Company's expense related to the Plan was approximately \$43,000,000 and \$42,000,000, respectively.

Note 15 – Supplemental Cash Flow Information

Cash paid for interest during 2021 and 2020 was \$920,906 and \$919,598, respectively. The Company made income tax payments of \$500,000 and \$1,443,000 during 2021 and 2020, respectively. Non-cash purchases of property and equipment included in accounts payable and accrued liabilities were \$3,016,693 and \$414,570 as of December 31, 2021 and 2020.

Note 16 – Supplemental Operating Expense Information

Operating expenses consist of the following at December 31:

	<u>2021</u>	<u>2020</u>
Employee compensation	\$ 846,720,082	\$ 839,613,831
Employee benefits	84,855,553	85,424,917
Rent	35,167,566	33,717,887
Depreciation/amortization	12,398,996	12,123,159
Client reimbursable expenses	47,954,392	44,746,804
Other	<u>351,703,571</u>	<u>304,392,960</u>
Total operating expenses	<u>\$ 1,378,800,160</u>	<u>\$ 1,320,019,558</u>

