

Delta Dental of California and Subsidiaries

Consolidated Financial Statements

December 31, 2015 and 2014



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Delta Dental of California
San Francisco, California

We have audited the accompanying consolidated financial statements of Delta Dental of California and Subsidiaries (a non-profit California corporation), which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income and expense and comprehensive income, general reserves and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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 audit 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 financial position of Delta Dental of California and Subsidiaries as of December 31, 2015 and 2014, 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.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino^{LLP}
San Francisco, California

April 6, 2016

DELTA DENTAL OF CALIFORNIA AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands)

	December 31	
	2015	2014
ASSETS		
Cash and cash equivalents	\$ 602,965	\$ 213,234
Marketable securities	964,328	790,074
	<u>1,567,293</u>	<u>1,003,308</u>
Premiums and other receivables		
Premium receivables	321,704	403,391
Other receivables	33,312	45,633
	<u>355,016</u>	<u>449,024</u>
Property and equipment, net	201,294	235,166
Deferred compensation plans investments	35,716	36,468
Note receivable	10,000	-
Other assets	34,352	30,946
	<u>2,203,671</u>	<u>1,754,912</u>
TOTAL ASSETS	\$ 2,203,671	\$ 1,754,912
LIABILITIES AND GENERAL RESERVES		
Liabilities		
Unpaid claims and claims adjustment expenses	\$ 390,910	\$ 391,496
Accounts payable and accrued expenses	222,407	208,254
Deferred revenue	75,142	74,259
Refundable group balances	482,344	161,421
Deferred compensation plans	35,716	36,468
Accrued retirement benefits	72,714	61,670
Other liabilities	18,145	15,849
	<u>1,297,378</u>	<u>949,417</u>
General reserves		
Accumulated other comprehensive loss	(19,727)	(4,826)
General reserves	926,020	810,321
	<u>906,293</u>	<u>805,495</u>
TOTAL LIABILITIES AND GENERAL RESERVES	\$ 2,203,671	\$ 1,754,912

The accompanying notes are an integral part of these consolidated financial statements.

DELTA DENTAL OF CALIFORNIA AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND EXPENSE
AND COMPREHENSIVE INCOME
(In thousands)

	Years Ended December 31	
	2015	2014
Premiums and other income		
Commercial programs	\$ 5,354,482	\$ 5,098,636
State programs	927,957	852,186
Federal programs	765,982	689,213
	<u>7,048,421</u>	<u>6,640,035</u>
Administrative service contracts	<u>(2,789,226)</u>	<u>(2,709,600)</u>
	4,259,195	3,930,435
Investment income, net	23,156	22,097
Other income (expense), net	(9,886)	19,263
	<u>4,272,465</u>	<u>3,971,795</u>
Claims and operating expenses		
Claims incurred	6,189,805	5,855,997
Claims incurred on administrative service contracts	<u>(2,789,226)</u>	<u>(2,709,600)</u>
	3,400,579	3,146,397
Operating expenses	756,187	729,558
	<u>4,156,766</u>	<u>3,875,955</u>
Net income	<u>115,699</u>	<u>95,840</u>
Other comprehensive income (loss)		
Pension liability and post-retirement adjustments	(11,452)	9,395
Unrealized gains (losses) on securities	(3,449)	9,473
	<u>(14,901)</u>	<u>18,868</u>
Comprehensive income	<u>\$ 100,798</u>	<u>\$ 114,708</u>

The accompanying notes are an integral part of these consolidated financial statements.

DELTA DENTAL OF CALIFORNIA AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF GENERAL RESERVES
(In thousands)

	<u>Accumulated Other Comprehensive Income</u>	<u>General Reserves</u>	<u>Total</u>
BALANCE AT JANUARY 1, 2014	\$ (23,694)	\$ 714,481	\$ 690,787
Net income	-	95,840	95,840
Pension liability and post-retirement adjustments	9,395	-	9,395
Net unrealized gains on securities	<u>9,473</u>	<u>-</u>	<u>9,473</u>
BALANCE AT DECEMBER 31, 2014	(4,826)	810,321	805,495
Net income	-	115,699	115,699
Pension liability and post-retirement adjustments	(11,452)	-	(11,452)
Net unrealized losses on securities	<u>(3,449)</u>	<u>-</u>	<u>(3,449)</u>
BALANCE AT DECEMBER 31, 2015	<u>\$ (19,727)</u>	<u>\$ 926,020</u>	<u>\$ 906,293</u>

The accompanying notes are an integral part of these consolidated financial statements.

DELTA DENTAL OF CALIFORNIA AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Years Ended December 31	
	2015	2014
Cash flows from operating activities		
Net income	\$ 115,699	\$ 95,840
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	27,860	28,233
Allowance for note receivable	10,000	-
Bond amortization	10,186	8,422
Realized losses (gains) on securities	63	(95)
Impairment of long-lived assets	33,995	20,286
Changes in operating assets and liabilities		
Premium receivables	81,687	(72,887)
Other receivables	12,321	(17,416)
Other assets	(3,406)	(286)
Unpaid claims and claims adjustment expenses	(586)	28,039
Accounts payable and accrued expenses	14,153	(1,987)
Deferred revenue	883	6,206
Refundable group balances	320,923	1,456
Accrued retirement benefits	(408)	3,825
Other liabilities	2,296	1,989
Net cash provided by operating activities	<u>625,666</u>	<u>101,625</u>
Cash flows from investing activities		
Purchases of marketable securities	(219,418)	(232,497)
Redemptions of marketable securities	31,466	148,417
Note receivable	(20,000)	-
Development and purchases of computer software systems	(19,303)	(32,295)
Purchases of property and equipment	(8,680)	(11,213)
Net cash used in investing activities	<u>(235,935)</u>	<u>(127,588)</u>
Net increase (decrease) in cash and cash equivalents	389,731	(25,963)
Cash and cash equivalents, beginning of year	<u>213,234</u>	<u>239,197</u>
Cash and cash equivalents, end of year	<u>\$ 602,965</u>	<u>\$ 213,234</u>
Supplemental disclosure		
Interest paid	<u>\$ 326</u>	<u>\$ 180</u>

The accompanying notes are an integral part of these consolidated financial statements.

DELTA DENTAL OF CALIFORNIA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

1. Nature of Organization

Delta Dental of California (Delta, or with its subsidiaries, referred to as the Company), is a non-profit California corporation regulated by the Department of Managed Health Care (DMHC). Delta has ownership in the following companies listed in the table below:

<u>Company Name</u>	<u>% Ownership</u>
DDC Insurance Holdings, Inc. (DDCIH)	100.0%
Delta Dental of Puerto Rico, Inc. (DDPR)	63.9%
Celebration Dental Services (CDS)	100.0%
PaCa Management. LLC (PaCa)	50.0%

In 2014, Delta paid \$6.1 million to purchase additional shares of common stock for DDPR increasing Delta's ownership percentage to 63.9% from 47.6%.

On January 1, 2012, Delta assigned all of its interests in certain subsidiaries to DDCIH in order for the subsidiaries to properly enter into a Federal Tax Sharing agreement for the preparation of a consolidated federal tax return. Those subsidiaries included:

<u>Company Name</u>	<u>% Ownership</u>
Delta Dental Insurance Company (DDIC)	91.1%
Dentegra Insurance Company (DIC)	80.0%
Dentegra Insurance Company of New England (DICNE)	100.0%
The Alphas:	
Alpha Dental Programs, Inc.	100.0%
Alpha Dental of Alabama, Inc.	100.0%
Alpha Dental of Arizona, Inc.	100.0%
Alpha Dental of Nevada, Inc.	100.0%
Alpha Dental of New Mexico, Inc.	100.0%
Alpha Dental of Utah, Inc.	100.0%

DDCIH also holds 100% of the preferred stock of DDIC.

Delta, DDIC, DDPR and the Alphas underwrite and administer prepaid, cost reimbursement, and capitation dental care programs under agreements with various subscriber groups and individuals. DIC is a single license entity authorized to offer insurance products in fifty jurisdictions. DIC-NE is a single license entity authorized to do business in five jurisdictions. CDS operates dental offices in Celebration, Florida. PaCa assists affiliates of Delta Dental of Pennsylvania (DDP) in the administration of their programs.

The Company is a member of Dentegra Group Inc., a holding company with common management and control. These entities provide services to each other and charge fees for those services, and the Company's financial position and results of operations might be different if the entities operated as stand-alone entities.

DELTA DENTAL OF CALIFORNIA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

2. Summary of Significant Accounting Policies

Principles of consolidation and basis of presentation

The consolidated financial statements include the accounts of Delta and all entities in which a controlling interest is held. All significant intercompany transactions and balances have been eliminated in consolidation.

Revenue recognition

The Company administers a variety of dental programs, with the major programs described as follows:

Retention/guaranteed administration

Under retention and guaranteed administration programs, the excess of subscriber premiums over dental claims and administrative fees is refundable to the subscriber group, whereas any excess of dental claims and administrative fees over subscriber premiums can be recovered from future premium rates or absorbed by the Company. Premium revenue is recognized during the coverage period.

Non-retention

Under non-retention programs, the Company retains any excess or absorbs any shortages incurred between subscriber premiums and dental claims incurred and administrative fees. Premium income is recognized during the coverage period.

Administrative services contracts (ASC)

Under ASC programs, the Company receives revenues from subscriber groups on a cost reimbursement basis plus administrative fees. The cost of the dental fees for these groups is charged as incurred and administrative fees are charged to the subscriber group based on a percentage of claims paid or a specific fee per eligible subscriber.

Capitation

Under capitation programs, the Company receives premium revenues from groups and individuals, and contracts with certain providers for agreed upon procedures for enrollees. Capitation fees are paid to providers during the contract period and are expensed as incurred. Premium income is recognized during the coverage period.

Cash and cash equivalents

Cash and cash equivalents include demand deposits and short-term with original maturities of three months or less.

DELTA DENTAL OF CALIFORNIA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014

2. Summary of Significant Accounting Policies (continued)

Financial instruments and concentrations of credit risk

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash, cash equivalents, marketable securities and premium receivables. Cash and cash equivalents are maintained with high-credit quality financial institutions and, at times, may exceed federally insured amounts. The Company has not incurred any losses in such accounts. All investments are managed within established guidelines that limit the amounts that may be invested with one issuer.

Marketable securities

The Company classifies investments in debt securities as held-to-maturity and, as such, they are carried at amortized cost. Premiums and discounts are amortized over the life of the related securities as an adjustment to yield using the scientific (constant yield) interest method. Such amortization is included in investment income. Equity securities are classified as available-for-sale and are carried at fair value. Realized gains and losses on debt and equity securities are included in investment income using the specific identification method for determining the cost of securities sold.

Dividend and interest income is recognized when earned. A decline in the fair value of held-to-maturity securities below cost that is deemed to be other-than-temporary results in a reduction in the carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. The Company performs regular analysis of its investments to determine the need to record an impairment. The Company recorded an impairment charge of \$1.1 million at December 31, 2015. There were no impairments at December 31, 2014.

Fair value measurements

The Company applies the provisions of ASC No. 820, *Fair Value Measurements and Disclosures (ASC 820)*, which establishes a hierarchy for inputs used in measuring fair value, as follows:

Level 1 - Valuations are based on quoted market prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Since valuations are readily and regularly available, valuation of Level 1 assets and liabilities does not require a significant degree of judgment. The Company considers U.S. Treasuries and equity securities as Level 1 assets.

DELTA DENTAL OF CALIFORNIA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014

2. Summary of Significant Accounting Policies (continued)

Fair value measurements (continued)

Level 2 - Valuations are based on quoted prices for similar assets in active markets, or quoted prices in markets that are not active for which significant inputs are observable, either directly or indirectly. The Company considers U.S. Government agencies, municipal bonds, mortgage-backed securities, collateralized mortgage obligations, asset-backed securities, and corporate bonds as Level 2 assets. The Company currently does not own any assets measured as Level 2 assets.

Level 3 - Valuations are based on inputs that are unobservable and significant to the overall fair value measurement. Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model. The Company considers common stock that is not actively traded as Level 3 assets. Valuation is based on cost.

The Company's investments in fixed income and equity securities are valued through the use of nationally recognized pricing services by the custodian and investment managers. If the Company does not agree with the estimated price, the identified price will be verified by an independent pricing source or through performing independent valuations of inputs and assumptions similar to those used by the pricing service in order to determine prices represent a reasonable estimate of fair value. The Company made no significant adjustments as of December 31, 2015 or 2014.

Premiums and other receivables

Premiums and other receivables are monitored by management on an on-going basis and are written off by the Company when it has been determined that all available collection avenues have been exhausted. The allowance for doubtful accounts at December 31, 2015 and 2014 was \$9.5 million and \$9.3 million, respectively.

Property and equipment

Property and equipment, including computer software systems, are carried at cost and depreciated by the straight-line method over the shorter of the estimated useful lives of the assets, ranging from three to ten years, or the lease term. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred; renewals, leasehold improvements and betterments are capitalized.

DELTA DENTAL OF CALIFORNIA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

2. Summary of Significant Accounting Policies (continued)

Goodwill and other intangible assets

Included in other assets are goodwill and intangible assets of \$7.6 million as of December 31, 2015 and 2014. These assets represent goodwill on Delta's capitation line of business and the excess of the purchase price of DIC, DIC-NE and CDS over the net assets acquired. Under accounting guidance, the Company does not amortize goodwill and other intangible assets with indefinite lives, however, Delta reviews the assets for impairment at least annually and more frequently if material changes in events or circumstances arise. Based on the reviews performed, there were no impairments at December 31, 2015 and 2014.

Long-lived assets

The Company reviews long-lived assets held and used 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 the assets to future undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying value of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell. The Company recorded an impairment charge of \$34.0 million and \$20.3 million at December 31, 2015 and 2014, respectively.

Deferred compensation plans

Delta provides deferred compensation plans, other than pension plans, for Delta dentists. Investments and liabilities related to these programs consist of participant contributions and investment income. Contributions to the dentists' plan were discontinued in 1992.

Liability for unpaid claims and claims adjustment expenses

Liability for unpaid claims represents estimated unpaid dental services rendered and reported to the Company, as well as a provision for dental claims incurred but not reported prior to the end of the year. The provision is actuarially determined based upon claims experience. The provision for claims incurred but not reported amounted to \$259.1 million and \$311.3 million at December 31, 2015 and 2014, respectively. Claims adjustment expenses related to claims unpaid are accrued based on an estimate of expenses to adjudicate and pay such claims. Claims adjustment expenses are reflected in operating expenses.

While management believes that the liability for unpaid claims and claims adjustment expenses at December 31, 2015 and 2014 is adequate to cover the ultimate net cost of claims, the liability is based on estimates and the amount ultimately paid may be more or less than the estimates. Adjustments and changes resulting from revisions of these estimates are reported in the period in which the revisions are made.

DELTA DENTAL OF CALIFORNIA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

2. Summary of Significant Accounting Policies (continued)

Deferred revenue

Premiums received in advance for the unexpired contractual coverage periods are reflected in the accompanying consolidated balance sheets as deferred revenue.

Refundable group balances

Certain contracts provide that dues received in excess of claims incurred and administrative fees are either refundable to the groups at the expiration of the agreements or applied against future dues payments.

Pension and other post-retirement benefits

The Company provides a range of benefits to eligible and retired employees, including pensions and post-retirement healthcare. The Company records annual amounts relating to these plans based on calculations which include various actuarial assumptions such as discount rates, expected rates of return on plan assets, compensation increases, turnover rates and healthcare cost trend rates. The Company reviews its actuarial assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when appropriate. As required, the effect of the modifications is generally amortized over future periods.

Income tax status

Delta is a tax-exempt organization organized under Section 501(c)(4) of the Internal Revenue Code and, as such, no provision for income taxes has been made in the financial statements.

Subsidiaries of DDCIH are included in a consolidated federal income tax return with DDCIH. A Federal Tax Sharing agreement sets forth the manner in which the total combined federal income tax is allocated to each entity which is party to the consolidation. Pursuant to this agreement each party has an enforceable right to recoup federal income taxes paid in prior years in the event of future net losses, which it may incur, or to recoup its net losses carried forward as an offset to future net income subject to federal income taxes. In accordance with accounting guidance, current and deferred taxes are allocated to members of the consolidated group using the separate return allocation method. Income tax expense for the years ended December 31, 2015 and 2014 was \$13.6 million and \$10.2 million, respectively, and is included in operating expenses on the consolidated statements of income and expense.

DELTA DENTAL OF CALIFORNIA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

2. Summary of Significant Accounting Policies (continued)

Income tax status (continued)

For subsidiaries of DDCIH, deferred tax provisions and benefits are calculated for certain transactions and events because of differing treatments between generally accepted accounting principles and the currently enacted tax laws. The effects of these differences on a cumulative basis result in the recognition and measurement of the deferred tax assets and liabilities. Net deferred tax assets in the amount of \$1.3 million and \$1.8 million at December 31, 2015 and 2014, respectively, are included in other assets on the consolidated balance sheets. Deferred tax liabilities in the amount of \$1.8 million and \$1.5 million at December 31, 2015 and 2014, respectively, are included in accounts payable and accrued expenses on the consolidated balance sheets.

Current accounting guidance clarifies how uncertainties in tax positions are recognized in an entity's financial statements. The guidance prescribes a recognition threshold and measurement process for tax positions taken or expected to be taken in a tax return. Positions include those with respect to Delta's tax exempt status and with respect to income taxes on unrelated business income. The Company has determined that such tax positions do not result in uncertainties requiring recognition.

Estimates and assumptions

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as revenues and expenses reported for the periods presented. The Company regularly assesses these estimates and, while actual results may differ, management believes these estimates are reasonable.

Comprehensive income (loss)

Accumulated other comprehensive income (loss) of the Company consists of net unrealized gains or losses on equity securities and adjustments to pension and other post-retirement benefit plans.

Business concentration

PaCa receives all of its operating income from the following sources: (1) administrative fee income ceded from DDNY and DDDC; (2) administrative fee income earned on the state of Maryland programs ceded from DDP; and (3) contractual income from DDP in an amount equal to the portion of Delta Reinsurance Corporation (DRC) net profits attributable to the reinsurance of DDNY and DDDC risk-based programs if DDP receives a dividend from DRC.

DELTA DENTAL OF CALIFORNIA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

2. Summary of Significant Accounting Policies (continued)

Business concentration (continued)

Additionally, PaCa receives contractual income from DDP for the settlement of underwriting results on the state of Maryland programs. The Maryland contractual income was \$1.2 million and \$1.7 million for the periods ending December 31, 2015 and 2014, respectively. PaCa also received contractual income from DDP in the amount of \$7.5 million as a result of the DRC dividend declared and paid in 2014; there was no dividend declared or paid in 2015.

Subsequent Events

The Company has evaluated subsequent events through April 6, 2016, the date the consolidated financial statements were available to be issued. As of April 6, 2016, the Company did not have any subsequent events that require recognition or disclosure.

Reclassification

Certain reclassifications have been made to prior year balances to conform with current year presentation.

3. Marketable Securities

The following tables (in thousands) set forth the amortized cost, unrealized gains and losses, and fair value for debt and equity securities:

	December 31, 2015			
	Cost	Unrealized		Fair Value
Gains		Losses		
Held-to-maturity				
Debt securities				
Corporate & municipalities	\$ 731,223	\$ 6,917	\$ 9,106	\$ 729,034
U.S. government & agencies	39,038	722	122	39,638
Mortgage backed	16,493	1,532	36	17,989
Foreign government	7,322	15	55	7,282
Certificate of deposits	650	-	-	650
	<u>794,726</u>	<u>9,186</u>	<u>9,319</u>	<u>794,593</u>
Available-for-sale				
Equity securities	115,490	34,703	591	149,602
Common stock	20,000	-	-	20,000
	<u>135,490</u>	<u>34,703</u>	<u>591</u>	<u>169,602</u>
	<u>\$ 930,216</u>	<u>\$ 43,889</u>	<u>\$ 9,910</u>	<u>\$ 964,195</u>

DELTA DENTAL OF CALIFORNIA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

3. Marketable Securities (continued)

	December 31, 2014			Fair Value
	Cost	Unrealized		
		Gains	Losses	
Held-to-maturity				
Debt securities				
Corporate & municipalities	\$ 546,547	\$ 9,611	\$ 3,631	\$ 552,527
U.S. government & agencies	33,450	794	58	34,186
Mortgage backed	25,090	2,346	39	27,397
Foreign government	17,637	129	177	17,589
Certificate of deposits	650	-	-	650
	<u>623,374</u>	<u>12,880</u>	<u>3,905</u>	<u>632,349</u>
Available-for-sale				
Equity securities	114,139	37,640	79	151,700
Common stock	15,000	-	-	15,000
	<u>129,139</u>	<u>37,640</u>	<u>79</u>	<u>166,700</u>
	<u>\$ 752,513</u>	<u>\$ 50,520</u>	<u>\$ 3,984</u>	<u>\$ 799,049</u>

The contractual maturities of debt securities at December 31, 2015 are summarized in the table (in thousands) below:

	Amortized Cost	Fair Value
Due within one year	\$ 12,178	\$ 12,361
Due after one year through five years	384,122	385,086
Due after five years through ten years	396,803	395,536
Due after ten years	1,623	1,610
	<u>\$ 794,726</u>	<u>\$ 794,593</u>

DELTA DENTAL OF CALIFORNIA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

4. Fair Value

The following table (in thousands) reflects the major categories of assets measured at fair value on a recurring basis during the years ended December 31, 2015 and 2014. The Company currently does not own assets measured by significant other inputs (Level 2):

	Level 1: Quoted For Identical Assets	Level 3: Significant Unobservable Inputs	Total at December 31, 2015
Available-for-sale securities	<u>\$ 149,602</u>	<u>\$ 20,000</u>	<u>\$ 169,602</u>
	Level 1: Quoted For Identical Assets	Level 3: Significant Unobservable Inputs	Total at December 31, 2014
Available-for-sale securities	<u>\$ 151,700</u>	<u>\$ 15,000</u>	<u>\$ 166,700</u>

Realized gains included in earnings for the year ended December 31, 2015 and 2014 are reported in investment income as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Realized gains (losses), net	<u>\$ (63)</u>	<u>\$ 95</u>

5. Property and Equipment

Property and equipment as of December 31 are summarized in the table (in thousands) below:

	<u>2015</u>	<u>2014</u>
Leasehold improvements	\$ 36,086	\$ 35,830
Computer equipment and office furniture	93,196	85,420
Computer software systems	<u>398,817</u>	<u>423,538</u>
	528,099	544,788
Less accumulated depreciation and amortization	<u>(326,805)</u>	<u>(309,622)</u>
Property and equipment, net	<u>\$ 201,294</u>	<u>\$ 235,166</u>

Depreciation and amortization expense for 2015 and 2014 was \$27.9 million and \$28.2 million, respectively.

DELTA DENTAL OF CALIFORNIA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

6. State and Federal Programs and Reinsurance

On August 4, 2011, the State of California awarded Delta a five-year Medi-Cal dental risk contract (Denti-Cal) with the option of four one-year extensions. This contract was to begin on July 1, 2012. On July 26, 2012, the State of California Department of Health Care Services (DHCS) informed Delta of their intent to suspend the new contract and extend the old contract for twelve months through June 30, 2013. On July 1, 2013, an additional two-year extension was granted through June 30, 2015. On July 27, 2015, an additional one-year extension was granted through June 30, 2016. DHCS expressed their intent to further extend the contract for one additional year through June 30, 2017 and is in the process of issuing Delta a formal notification.

The terms of the Denti-Cal contract, including extensions, limit Delta's annual underwriting gain or loss to \$4.65 million. Delta is also required to maintain a minimum tangible net equity balance, as defined in the contract, of \$142.0 million and \$134.0 million for 2015 and 2014, respectively. Delta is also required to maintain segregated investments of \$37.1 million and \$32.9 million for 2015 and 2014, respectively, and a letter of credit of \$5.0 million. Delta was in compliance with these contract requirements during 2015 and 2014. Denti-Cal revenues, included in State programs, were \$915.5 million and \$839.4 million and incurred claims were \$822.7 million and \$748.8 million for the years ended December 31, 2015 and 2014, respectively.

Delta also provides dental services to multiple county programs within the State of California with varying contract terms. The combined program revenues included in State programs were \$2.0 million and \$6.6 million and incurred claims were \$1.3 million and \$3.9 million for the years ended December 31, 2015 and 2014, respectively.

On September 1, 2013, DDIC and the State of Utah Department of Health entered into a dental services contract to provide insurance under the Utah Medicaid Dental Services program through June 30, 2015, with two one-year extension options. In December 2015, an amendment was entered to extend the contract through August 31, 2018. DDIC entered into a quota share reinsurance agreement with Delta. Under this agreement, 90% of the risk associated with the underwriting of the Utah Medicaid Dental Services contract was ceded to Delta. Utah Medicaid revenues, included in State programs, were \$11.1 million and \$10.3 million and incurred claims were \$11.9 million and \$11.1 million for the years ended December 31, 2015 and 2014, respectively.

Delta contracts with the United States Department of Defense (DOD) to provide dental benefits to retirees of the uniformed services and their dependents through a five-year contract effective January 1, 2014, expiring on December 31, 2018. The contract is underwritten and administered by Delta through risk sharing and administrative agreements.

DELTA DENTAL OF CALIFORNIA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

6. State and Federal Programs and Reinsurance (continued)

On January 1, 2014, the Company entered into risk sharing agreements with Federal Marketing Group partners (Delta Dental Plan Association members). Under this contract, the Company records 100% of the contract activity, retains 40.36% of the risk and provisions the remaining 59.64% of the risk to non-enterprise risk-share partners. The program revenues included in Federal programs were \$528.5 million and \$498.3 million and incurred claims were \$498.0 million and \$473.0 million for the years ended December 31, 2015 and 2014, respectively.

The Company has a multi-state dental contract covering all fifty states, Puerto Rico and the U.S. Virgin Islands with the AARP Dental Insurance Trust to provide dental insurance for AARP members. Direct underwriting by selective state is assigned among DDIC, DIC and DICNE with Delta providing operational and administrative services for this contract. Delta has also entered into a 56% quota share reinsurance agreement with DDIC, DIC and DIC-NE. In addition, DDIC, DIC, and DIC-NE have each entered into a 33% and 10% quota share reinsurance agreement with Hannover Life and Reassurance Company of America (HLRC) and Renaissance Life and Health Insurance Company of America (RLHIC), respectively. As part of this agreement, Delta maintains a trust account balance for the purpose of collateralization of the reinsurance credit. The AARP program revenues included in Federal programs were \$176.0 million and \$158.9 million and incurred claims of \$82.1 million and \$76.9 million for the years ended December 31, 2015 and 2014, respectively.

Effective January 1, 2014, DDIC and DIC entered into separate contracts with the United States Office of Personnel Management (OPM) to offer benefits in the Federal Employees Dental and Vision Insurance Program (FEDVIP) and with the United States Department of Veteran Affairs (VA) to provide dental benefits in the Veteran Affairs Dental Insurance Program (VADIP). The FEDVIP and VADIP contracts expire on December 31, 2020 and December 31, 2016, respectively. Delta provides operational and administrative services for these contracts. DDIC and DIC entered into reinsurance agreements with Delta to cede 100% of the risk associated with the underwriting for these programs. The Company entered into risk sharing agreements with Federal Marketing Group partners. Under this contract, the Company records 100% of the contract activity, retains 33.82% of the risk and provisions the remaining 66.18% of the risk to non-enterprise risk-share partners. FEDVIP program revenues, included in Federal programs, were \$35.9 million and \$18.1 million and incurred claims of \$30.2 million and \$15.1 million for the years ended December 31, 2015 and 2014, respectively. VADIP program revenues, included in Federal programs, were \$17.5 million and \$9.4 million and incurred claims of \$13.4 million and \$8.5 million, for the years ended December 31, 2015 and 2014, respectively.

On January 1, 2015, DDIC entered into a contract with the Office of the Comptroller of the Currency (OCC) to offer benefits to the employees, retirees and their eligible dependents. DDIC entered in to a reinsurance agreement to cede 100% of premiums earned less administrative fees and claims incurred to Delta. OCC program revenues, included in Federal programs, were \$4.2 million and incurred claims of \$3.9 million, for the year ended December 31, 2015.

DELTA DENTAL OF CALIFORNIA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

6. State and Federal Programs and Reinsurance (continued)

DDIC maintains a quota share reinsurance agreement with DRC of which DDIC owns a 5.93% minority share. Under the terms of this agreement, DDIC cedes 90% of all premiums earned less administrative fees and claims incurred for business written in the State of New York and the District of Columbia. Ceded premiums were \$11.0 million and \$9.9 million and ceded claims were \$11.5 million and \$9.6 million, for the years ended December 31, 2015 and 2014, respectively.

Additionally, DDIC has a reinsurance deposit in the amount of \$1.0 million from DRC for the maintenance of a statutory net credit for unauthorized reinsurance. The deposit bears interest at the lesser of the Prime Rate on the applicable date or the same rate payable on the first six-month U.S. Treasury Bill issued during each quarter. Interest paid to DRC was minimal in 2015 and 2014. The deposit amount is included in other liabilities.

Amounts ceded by reinsurance contracts do not relieve the underwriting company from its obligations to policy holders. Failure of reinsurers to honor their obligations could result in losses to the company. Each company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities and economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

7. Liability for Unpaid Claims and Claims Adjustment Expenses

Activity in the liability for unpaid claims and claims adjustment expenses is summarized in the table below (in thousands):

	<u>2015</u>	<u>2014</u>
Balance, January 1	\$ 382,051	\$ 353,850
Incurred related to:		
Current year	6,237,217	5,884,439
Prior years	<u>(47,412)</u>	<u>(28,442)</u>
	<u>6,189,805</u>	<u>5,855,997</u>
Paid related to:		
Current year	5,853,524	5,502,388
Prior years	<u>334,639</u>	<u>325,408</u>
	<u>6,188,163</u>	<u>5,827,796</u>
Balance, December 31	383,693	382,051
Unpaid claims adjustment expenses	<u>7,217</u>	<u>9,445</u>
Total unpaid claims and claims adjustment expenses	390,910	391,496
Ceded claims unpaid	<u>4,896</u>	<u>4,158</u>
Gross unpaid claims and claims adjustment expenses	<u>\$ 395,806</u>	<u>\$ 395,654</u>

DELTA DENTAL OF CALIFORNIA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

7. Liability for Unpaid Claims and Claims Adjustment Expenses (continued)

As a result of actual claims of prior years' experience differing from estimated amounts of insured events provided for at the beginning of the respective years, the liability for unpaid claims decreased by \$47.4 million and \$28.4 million in 2015 and 2014, respectively. The Company retains the risk and received the benefit of \$26.3 million and \$13.0 million from these reserve changes for December 31, 2015 and 2014, respectively.

8. Commitments and Contingencies

The Company has operating leases for office facilities, equipment and computer hardware. Future minimum lease payments required under these agreements are summarized in the table below (in thousands):

<u>Year Ending December 31</u>	
2016	\$ 24,629
2017	\$ 22,952
2018	\$ 15,375
2019	\$ 6,376
2020	\$ 5,891
Thereafter	\$ 1,244

Rental expense, including software licensing fees, was \$32.4 million and \$36.1 million in 2015 and 2014, respectively.

Lease payments for Dentegra Seguros Dentales S.A. (DSD) and Servicios Dentales Dentegra S.A. de C.V. (SDD), Mexican corporations and subsidiaries of DIC, are guaranteed by DDP. Future minimum lease payments and the term of the guarantee agreements are summarized in the table below (in thousands):

<u>Lessee</u>	<u>End of Guarantee</u>	<u>Term</u>	<u>Annual Rent</u>
DSD	7/31/2019	5 years	\$ 900
DSD	1/1/2021	5 years	\$ 228
SDD	12/31/2016	1 year	\$ 84

These guarantees shall remain in full force and effect until the earliest date on which: (i) the term of the lease; (ii) all of the guaranteed obligations have been completely performed and paid in full, or (iii) a replacement guarantor shall have assumed all the rights and obligations of guarantor under this guaranty with prior written consent from lessor. DSD and SDD are current in all lease payments at December 31, 2015 and 2014.

Delta maintained a \$50.0 million unsecured revolving bank line of credit with applicable interest set at prime rate. DDIC maintained a \$10.0 million unsecured revolving bank line of credit with an interest rate indexed to one month LIBOR plus 1.50% per annum.

DELTA DENTAL OF CALIFORNIA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

8. Commitments and Contingencies (continued)

Celebration maintained a \$1.0 million bank line of credit with an interest rate indexed to one month LIBOR plus 2.00% per annum. These lines of credit are used for periodic short-term cash flow requirements. The outstanding balances were \$0.5 million and \$0.8 million at December 31, 2015 and 2014, respectively.

Delta maintained credit facilities of \$29.0 million for unsecured letters of credit with \$13.2 million and \$15.8 million outstanding at December 31, 2015 and 2014, respectively.

9. Note Receivable

On November 15, 2015, Delta issued a \$20.0 million note receivable to Moda, Inc. (Moda), an affiliate of Oregon Dental Services (a Delta Dental Plan Association member) with an interest rate of 6.5% per annum and shall be paid within thirty calendar days of the close of the prior calendar year. All unpaid principal is due at anytime upon or after the earlier of November 15, 2020 unless Delta agrees to a later maturity date. Due to the uncertainty regarding the status of Moda's cash position and certain requirements placed on Moda by the Oregon Department of Insurance, a \$10.0 million allowance as of December 31, 2015 was established.

10. Related Party Transactions

DDP performs claims processing functions for Delta and DDIC under administrative services agreement. The Company paid DDP \$9.2 million and \$9.8 million for processing functions for 2015 and 2014, respectively.

In accordance with an administrative services agreement for the AARP contract, Delta reimburses DDP for 100% of the pooled administrative costs incurred by DDP. For the years ended 2015 and 2014, Delta paid DDP \$2.9 million and \$3.1 million, respectively.

The amounts payable to affiliates for administrative services at December 31, 2015 and 2014 was \$1.2 million and \$2.1 million, respectively.

The Company has administrative services agreements with DDP and its affiliates for computer and other administrative support services. The Company recorded \$11.8 million and \$11.0 million in cost reimbursements in 2015 and 2014, respectively. The amounts receivable from affiliates for these administrative services at December 31, 2015 and 2014 was \$3.6 million and \$2.1 million.

Pursuant to an administrative services agreement, DDP charges administrative expenses and interest expense to PaCa, based on an allocation of actual expenses, for the performance of certain functions for PaCa, DDNY, DDDC, and the state of Maryland programs. Administrative expenses and interest expense charged by DDP, included within operating expenses, were \$31.6 million and \$29.7 million, for the years ended December 31, 2015 and 2014, respectively.

DELTA DENTAL OF CALIFORNIA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

10. Related Party Transactions (continued)

In addition to the allocation of expenses from DDP, PaCa covers certain direct costs incurred by DDNY and DDDC. The amounts incurred included within operating expenses, were \$0.7 million and \$1.1 million in 2015 and 2014, respectively.

The amount receivable from affiliates for PaCa activity at December 31, 2015 and 2014 was \$3.1 million and \$3.7 million, respectively. The amount payable to affiliates related to PaCa activity at December 31, 2015 and 2014 was \$2.4 million and \$3.2 million, respectively.

Receivables from affiliates are included in other receivables and payables to affiliates are included in accounts payable and accrued expenses on the consolidated balance sheets.

Related party (affiliate) transactions are settled on a monthly basis through intercompany cash transfers.

11. Minimum Tangible Net Equity and Capital and Surplus Requirements

Under the requirements of the DMHC, Delta is required to maintain a minimum tangible net equity balance, as defined by the DMHC, of \$113.0 million and \$104.8 million at December 31, 2015 and 2014, respectively. Delta's tangible net equity balance was \$776.8 million and \$703.2 million at December 31, 2015 and 2014, respectively, and exceeded the DMHC's requirements.

At December 31, 2015 and 2014, Delta's subsidiaries exceed minimum capital and surplus requirements under the insurance code respective to the state where they are domiciled.

12. Employee Benefit Plans

The Company sponsors various plans for their employees. These plans include a qualified cash balance defined benefit pension plan and a post-retirement health benefit plan. The Company also maintains a non-qualified, defined benefit plan, Executive Supplemental Pension Plan (ESPP), for certain members of management. The ESPP is unfunded, however the Company has established a rabbi trust which protects the interest of the plan participants.

On January 1, 2013 (for non-union employees) and January 31, 2014 (for union employees), the cash balance defined benefit pension plan was frozen to new contributions and replaced with a 6% contribution to the 401(k) Plan noted below.

The Company's post-retirement health benefit plan is offered to eligible retired employees and their survivors. The plan is unfunded and claims are paid from Company funds.

DELTA DENTAL OF CALIFORNIA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

12. Employee Benefit Plans (continued)

The Company recognized an accumulated other comprehensive loss and income of \$11.5 million and \$9.4 million for the years ended December 31, 2015 and 2014, respectively, due to pension and post-retirement adjustments.

The Company participates in a 401(k) Plan (the Plan) that is available to all employees. Employees may contribute up to 50% of compensation to the Plan up to the maximum allowed by law. The Company will match 50% of the employees' contributions to the Plan up to 6% of eligible compensation, which is limited to \$265,000 and \$260,000 for 2015 and 2014, respectively. The annual expense for the plan was \$15.7 million and \$15.6 million, respectively, for the years ended December 31, 2015 and 2014. The Company may elect to make discretionary contributions to the Plan. The Company made a discretionary contribution in the amount of \$10.7 million at December 31, 2014. No discretionary contribution was made in 2015.

The following tables (in thousands) set forth the combined plans' total projected benefit obligations, weighted average assumptions used to determine the benefit obligation, fair value of plan assets, and the funded status as of the measurement date of September 30.

	Pension		Post-Retirement Health	
	2015	2014	2015	2014
Change in benefit obligation				
Benefit obligation, beginning of year	\$ 205,245	\$ 226,363	\$ 28,452	\$ 23,714
Service cost	1,168	641	1,054	842
Interest cost	6,230	8,958	1,161	1,180
Actuarial (gain)/loss	1,853	6,474	(2,705)	3,546
Gross benefits paid	(176)	(1,344)	(814)	(830)
Administrative expenses paid	(775)	(246)	-	-
Plan change	4,030	-	-	-
Settlements	<u>(38,992)</u>	<u>(35,600)</u>	<u>-</u>	<u>-</u>
Benefit obligation, end of year	<u>\$ 178,583</u>	<u>\$ 205,246</u>	<u>\$ 27,148</u>	<u>\$ 28,452</u>
Accumulated benefit obligation, end of year	<u>\$ 167,343</u>	<u>\$ 195,378</u>	<u>N/A</u>	<u>N/A</u>

DELTA DENTAL OF CALIFORNIA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

12. Employee Benefit Plans (continued)

	Pension		Post-Retirement Health	
	2015	2014	2015	2014
Weighted-average assumptions used to determine benefit obligation at end of year:				
Qualified plan				
- Discount rate	3.55%	3.47%	4.35%	3.99%
- Rate of compensation increase	0.00%	0.00%	N/A	N/A
Non-qualified plan				
- Discount rate	3.04%	2.97%	N/A	N/A
- Rate of compensation increase	4.50%	4.50%	N/A	N/A
Cash balance interest credit rate	0.33%	0.07%	N/A	N/A
Health care cost trend rate				
- Initial rate	N/A	N/A	7.25%	7.50%
- Ultimate rate	N/A	N/A	5.00%	5.00%
- Years to ultimate	N/A	N/A	9	6
Effect of one-percentage point change in assumed health care cost trend rate on post retirement obligation				
- Increase	N/A	N/A	\$ 110	\$ 1,212
- Decrease	N/A	N/A	\$ (95)	\$ (989)
Change in plan assets				
Fair value of plan assets,				
beginning of year	\$ 172,028	\$ 182,837	\$ -	\$ -
Actual return on plan assets	851	16,087	-	-
Employer contributions	81	10,294	814	830
Gross benefits paid	(176)	(1,344)	(814)	(830)
Settlements	(38,992)	(35,600)	-	-
Administrative expenses paid	(775)	(246)	-	-
Fair value of plan assets, end of year	<u>\$ 133,017</u>	<u>\$ 172,028</u>	<u>\$ -</u>	<u>\$ -</u>

The following tables (in thousands) provide the amounts recognized in the consolidated balance sheets as of December 31:

	Pension		Post-Retirement Health	
	2015	2014	2015	2014
Funded status, end of year				
Fair value of plan assets	\$ 133,017	\$ 172,028	\$ -	\$ -
Benefit obligations	<u>(178,583)</u>	<u>(205,246)</u>	<u>(27,148)</u>	<u>(28,452)</u>
Funded status	<u>\$ (45,566)</u>	<u>\$ (33,218)</u>	<u>\$ (27,148)</u>	<u>\$ (28,452)</u>

DELTA DENTAL OF CALIFORNIA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

12. Employee Benefit Plans (continued)

	Pension		Post-Retirement Health	
	2015	2014	2015	2014
Amounts recognized in the consolidated balance sheets:				
Current liability	\$ (142)	\$ (135)	\$ (870)	\$ (799)
Noncurrent liability	<u>(45,424)</u>	<u>(33,083)</u>	<u>(26,278)</u>	<u>(27,653)</u>
	<u>\$ (45,566)</u>	<u>\$ (33,218)</u>	<u>\$ (27,148)</u>	<u>\$ (28,452)</u>
Accumulated other comprehensive loss:				
Prior service cost/(credit)	\$ 411	\$ (5,175)	\$ (7,311)	\$ (10,555)
Unamortized net loss	<u>52,655</u>	<u>46,481</u>	<u>8,084</u>	<u>11,637</u>
Accumulated other comprehensive loss	<u>\$ 53,066</u>	<u>\$ 41,306</u>	<u>\$ 773</u>	<u>\$ 1,082</u>

The following table provides the asset allocation by asset category for the years ending December 31, along with the target allocation:

	Target Allocation		Actual Allocation	
	2015	2014	2015	2014
Equity securities	50%	50%	50%	51%
Debt securities	48%	48%	46%	46%
Real estate	2%	2%	4%	3%

The following tables (in thousands) provide the components of net periodic costs and the weighted-average assumptions used to determine net periodic cost for the years ending December 31:

	Pension		Post-Retirement Health	
	2015	2014	2015	2014
Components of net periodic benefit cost:				
Service cost	\$ 1,168	\$ 641	\$ 1,054	\$ 842
Interest cost	6,230	8,957	1,161	1,181
Expected return on plan assets	(11,264)	(13,107)	-	-
Amortization:				
Actuarial loss	3,765	6,188	848	597
Prior service credit	(1,555)	(2,742)	(3,244)	(3,269)
Settlement loss	<u>2,327</u>	<u>15,660</u>	<u>-</u>	<u>-</u>
Net periodic benefit cost	<u>\$ 671</u>	<u>\$ 15,597</u>	<u>\$ (181)</u>	<u>\$ (649)</u>

DELTA DENTAL OF CALIFORNIA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014

12. Employee Benefit Plans (continued)

	Pension		Post-Retirement Health	
	2015	2014	2015	2014
Weighted-average assumptions used to determine net periodic cost:				
Qualified plan				
- Discount rate	3.47%	4.24%	3.99%	4.89%
- Rate of compensation increase	N/A	2.50%	N/A	N/A
Non-qualified plan				
- Discount rate	2.97%	3.71%	N/A	N/A
- Rate of compensation increase	4.50%	4.50%	N/A	N/A
Expected long-term rate of return on plan assets	7.50%	7.50%	N/A	N/A
Cash balance interest credit rate:				
Minimum balance	3.03%	3.04%	N/A	N/A
Ongoing balance	0.33%	0.07%	N/A	N/A
Health care cost trend rate				
- Initial rate	N/A	N/A	7.50%	7.75%
- Ultimate rate	N/A	N/A	5.00%	5.00%
- Year of ultimate trend rate	N/A	N/A	2020	2020
Effect of one-percentage point change in assumed health care cost trend rate on aggregate service and interest cost (in thousands)				
- Increase	N/A	N/A	\$ 114	\$ 98
- Decrease	N/A	N/A	\$ (90)	\$ (79)

The following table (in thousands) provides information about the expected cash flows for the years ending December 31:

	Post-Retirement Health	
	Pension	Health
Expected cash flows:		
Expected employer contributions	\$ 145	\$ 889
Expected benefits payments		
2016	\$ 25,700	\$ 889
2017	\$ 15,812	\$ 948
2018	\$ 13,151	\$ 1,011
2019	\$ 12,351	\$ 1,091
2020	\$ 11,131	\$ 1,165
2021 to 2025	\$ 93,872	\$ 7,201

DELTA DENTAL OF CALIFORNIA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

13. Mexico Operations

In order to meet the need for cross border access to dental care, Delta has been authorized by its Board to fund the formation of a Mexican specialized health insurer in an amount not to exceed \$26.0 million less any amount funded by DDP. To date, funding of \$19.0 million has been provided. DIC holds a 100% interest in Dentegra Insurance Holdings, LLC (DIH), a California limited liability corporation. DIC also holds a 99% interest in DSFD) with the remaining 1% held by DIH. DSD underwrites and administers dental insurance contracts in Mexico. DIC also has a 98% interest in SDD. SDD provides administrative services to DSD and is located in Mexico City, Mexico. DIH holds the remaining 2% of SDD.


SUPPLEMENTARY INFORMATION



INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors of
Delta Dental of California
San Francisco, California

We have audited the consolidated financial statements of Delta Dental of California, as of and for the years ended December 31, 2015 and 2014, and our report thereon dated April 6, 2016, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, and results of operations of the individual companies, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.


Armanino^{LLP}
San Francisco, California

April 6, 2016

DELTA DENTAL OF CALIFORNIA AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEETS
(In thousands)

	December 31, 2015										December 31,
	DDC	DDIC	DIC	DICNE	Alphas	DDPR	CDS	PACA	Eliminations	Consolidated	2014
ASSETS											
Cash and cash equivalents	\$ 485,744	\$ 42,910	\$ 39,749	\$ 5,006	\$ 11,567	\$ 14,390	\$ 102	\$ 3,497	\$ -	\$ 602,965	\$ 213,234
Marketable securities	821,799	114,104	5,608	1,281	10,953	6,493	-	4,090	-	964,328	790,074
	<u>1,307,543</u>	<u>157,014</u>	<u>45,357</u>	<u>6,287</u>	<u>22,520</u>	<u>20,883</u>	<u>102</u>	<u>7,587</u>	<u>-</u>	<u>1,567,293</u>	<u>1,003,308</u>
Premiums and other receivables											
Premium receivables	225,977	84,254	7,417	8	1,329	2,719	-	-	-	321,704	403,391
Other receivables	49,138	11,161	17,320	342	1,318	313	345	3,166	(49,791)	33,312	45,633
	<u>275,115</u>	<u>95,415</u>	<u>24,737</u>	<u>350</u>	<u>2,647</u>	<u>3,032</u>	<u>345</u>	<u>3,166</u>	<u>(49,791)</u>	<u>355,016</u>	<u>449,024</u>
Property and equipment, net	197,363	1,918	1,083	-	-	131	799	-	-	201,294	235,166
Deferred compensation plans investments	35,716	-	-	-	-	-	-	-	-	35,716	36,468
Notes receivable	95,750	-	-	-	-	-	-	-	(85,750)	10,000	-
Other assets	136,710	3,358	682	497	40	354	164	-	(107,453)	34,352	30,946
TOTAL ASSETS	<u>\$ 2,048,197</u>	<u>\$ 257,705</u>	<u>\$ 71,859</u>	<u>\$ 7,134</u>	<u>\$ 25,207</u>	<u>\$ 24,400</u>	<u>\$ 1,410</u>	<u>\$ 10,753</u>	<u>\$ (242,994)</u>	<u>\$ 2,203,671</u>	<u>\$ 1,754,912</u>
LIABILITIES AND GENERAL RESERVES											
Liabilities											
Unpaid claims and claims adjustment expenses	\$ 309,470	\$ 76,925	\$ 2,517	\$ 4	\$ 1,344	\$ 650	\$ -	\$ -	\$ -	\$ 390,910	\$ 391,496
Accounts payable and accrued expenses	159,102	70,841	21,797	546	3,947	1,778	611	2,374	(38,589)	222,407	208,254
Deferred revenue	70,989	2,166	513	11	1,423	40	-	-	-	75,142	74,259
Refundable group balances	482,211	120	13	-	-	-	-	-	-	482,344	161,421
Deferred compensation plans	35,716	-	-	-	-	-	-	-	-	35,716	36,468
Accrued retirement benefits	72,714	-	-	-	-	-	-	-	-	72,714	61,670
Notes payable	-	45,750	40,000	-	-	-	-	-	(85,750)	-	-
Other liabilities	11,702	3,580	-	-	-	2,283	580	-	-	18,145	15,849
	<u>1,141,904</u>	<u>199,382</u>	<u>64,840</u>	<u>561</u>	<u>6,714</u>	<u>4,751</u>	<u>1,191</u>	<u>2,374</u>	<u>(124,339)</u>	<u>1,297,378</u>	<u>949,417</u>
Capital and general reserves											
General reserves	926,020	36,492	(19,430)	123	14,135	2,629	(231)	(10,067)	(23,651)	926,020	810,321
Accumulated other comprehensive income (loss)	(19,727)	2,386	(3,078)	-	-	17	-	295	380	(19,727)	(4,826)
Preferred stock	-	10,500	-	-	-	-	-	-	(10,500)	-	-
Common stock	-	1,647	2,600	2,000	33	8,000	450	-	(14,730)	-	-
Additional paid-in capital	-	7,298	26,927	4,450	4,325	9,003	-	18,151	(70,154)	-	-
	<u>906,293</u>	<u>58,323</u>	<u>7,019</u>	<u>6,573</u>	<u>18,493</u>	<u>19,649</u>	<u>219</u>	<u>8,379</u>	<u>(118,655)</u>	<u>906,293</u>	<u>805,495</u>
TOTAL LIABILITIES AND GENERAL RESERVES	<u>\$ 2,048,197</u>	<u>\$ 257,705</u>	<u>\$ 71,859</u>	<u>\$ 7,134</u>	<u>\$ 25,207</u>	<u>\$ 24,400</u>	<u>\$ 1,410</u>	<u>\$ 10,753</u>	<u>\$ (242,994)</u>	<u>\$ 2,203,671</u>	<u>\$ 1,754,912</u>

DELTA DENTAL OF CALIFORNIA AND SUBSIDIARIES
CONSOLIDATING STATEMENTS OF INCOME AND EXPENSE AND COMPREHENSIVE INCOME (LOSS)
(In thousands)

	Year Ended December 31, 2015									Year Ended December 31, 2014	
	DDC	DDIC	DIC	DIC-NE	Alphas	DDPR	CDS	PACA	Eliminations	Consolidated	Consolidated
Premiums and other income											
Commercial programs	\$ 3,937,656	\$ 1,338,978	\$ 24,118	\$ 198	\$ 30,914	\$ 29,657	\$ -	\$ -	\$ (7,039)	\$ 5,354,482	\$ 5,098,636
State programs	925,036	2,921	-	-	-	-	-	-	-	927,957	852,186
Federal programs	739,368	14,674	11,733	207	-	-	-	-	-	765,982	689,213
	5,602,060	1,356,573	35,851	405	30,914	29,657	-	-	(7,039)	7,048,421	6,640,035
Administrative service contracts	(2,072,198)	(700,301)	-	-	-	(17,528)	-	-	801	(2,789,226)	(2,709,600)
	3,529,862	656,272	35,851	405	30,914	12,129	-	-	(6,238)	4,259,195	3,930,435
Investment income, net	23,259	2,865	772	18	158	(925)	-	76	(3,067)	23,156	22,097
Other income (expense), net	(37,371)	(666)	1,368	1	23	112	7,515	31,251	(12,119)	(9,886)	19,263
	3,515,750	658,471	37,991	424	31,095	11,316	7,515	31,327	(21,424)	4,272,465	3,971,795
Claims and operating expenses											
Claims incurred	4,955,645	1,183,094	10,658	72	18,312	22,825	-	-	(801)	6,189,805	5,855,997
Claims incurred on administrative service contracts	(2,072,198)	(700,301)	-	-	-	(17,528)	-	-	801	(2,789,226)	(2,709,600)
	2,883,447	482,793	10,658	72	18,312	5,297	-	-	-	3,400,579	3,146,397
Operating expenses	516,604	167,740	31,131	283	7,950	6,004	7,683	32,965	(14,173)	756,187	729,558
	3,400,051	650,533	41,789	355	26,262	11,301	7,683	32,965	(14,173)	4,156,766	3,875,955
Net income (loss)	115,699	7,938	(3,798)	69	4,833	15	(168)	(1,638)	(7,251)	115,699	95,840
Other comprehensive gains (losses)											
Pension liability and post-retirement adjustments	(11,452)	-	-	-	-	-	-	-	-	(11,452)	9,395
Unrealized gains (losses) on securities	(3,449)	(333)	-	-	-	(109)	-	(4)	446	(3,449)	9,473
Loss on foreign currency translation	-	-	(2,147)	-	-	-	-	-	2,147	-	-
	(14,901)	(333)	(2,147)	-	-	(109)	-	(4)	2,593	(14,901)	18,868
Comprehensive income (loss)	\$ 100,798	\$ 7,605	\$ (5,945)	\$ 69	\$ 4,833	\$ (94)	\$ (168)	\$ (1,642)	\$ (4,658)	\$ 100,798	\$ 114,708

DELTA DENTAL OF CALIFORNIA AND SUBSIDIARIES (ALPHAS)
CONSOLIDATING BALANCE SHEETS

(In thousands)

	December 31, 2015						December 31,	
	Alpha Dental Programs, Inc.	Alpha Dental Alabama	Alpha Dental of Arizona	Alpha Dental of Nevada	Alpha Dental of New Mexico	Alpha Dental of Utah	2014	
						Total	Total	
ASSETS								
Cash and cash equivalents	\$ 9,144	\$ 226	\$ 372	\$ 985	\$ 221	\$ 619	\$ 11,567	\$ 12,585
Marketable securities	<u>7,762</u>	<u>472</u>	<u>559</u>	<u>1,122</u>	<u>211</u>	<u>827</u>	<u>10,953</u>	<u>5,868</u>
	<u>16,906</u>	<u>698</u>	<u>931</u>	<u>2,107</u>	<u>432</u>	<u>1,446</u>	<u>22,520</u>	<u>18,453</u>
Premiums and other receivables								
Premium receivables	1,245	3	27	37	1	16	1,329	1,213
Other receivables	<u>969</u>	<u>9</u>	<u>132</u>	<u>126</u>	<u>19</u>	<u>63</u>	<u>1,318</u>	<u>1,135</u>
	<u>2,214</u>	<u>12</u>	<u>159</u>	<u>163</u>	<u>20</u>	<u>79</u>	<u>2,647</u>	<u>2,348</u>
Other assets	<u>37</u>	<u>-</u>	<u>1</u>	<u>1</u>	<u>-</u>	<u>1</u>	<u>40</u>	<u>50</u>
TOTAL ASSETS	\$ 19,157	\$ 710	\$ 1,091	\$ 2,271	\$ 452	\$ 1,526	\$ 25,207	\$ 20,851
LIABILITIES AND GENERAL RESERVES								
Liabilities								
Unpaid claims and claims adjustment expenses	\$ 986	\$ 7	\$ 98	\$ 166	\$ 37	\$ 50	\$ 1,344	\$ 1,981
Accounts payable and accrued expenses	3,369	35	196	143	58	146	3,947	4,142
Deferred revenue	<u>1,333</u>	<u>-</u>	<u>-</u>	<u>42</u>	<u>-</u>	<u>48</u>	<u>1,423</u>	<u>1,067</u>
	<u>5,688</u>	<u>42</u>	<u>294</u>	<u>351</u>	<u>95</u>	<u>244</u>	<u>6,714</u>	<u>7,190</u>
Capital and general reserves								
General reserves	12,775	467	500	238	3	152	14,135	9,303
Common stock	1	1	-	20	1	10	33	33
Additional paid-in capital	<u>693</u>	<u>200</u>	<u>297</u>	<u>1,662</u>	<u>353</u>	<u>1,120</u>	<u>4,325</u>	<u>4,325</u>
	<u>13,469</u>	<u>668</u>	<u>797</u>	<u>1,920</u>	<u>357</u>	<u>1,282</u>	<u>18,493</u>	<u>13,661</u>
TOTAL LIABILITIES AND GENERAL RESERVES	\$ 19,157	\$ 710	\$ 1,091	\$ 2,271	\$ 452	\$ 1,526	\$ 25,207	\$ 20,851

DELTA DENTAL OF CALIFORNIA AND SUBSIDIARIES (ALPHAS)
CONSOLIDATING STATEMENTS OF INCOME AND EXPENSE
(In thousands)

	Year Ended December 31, 2015						Year Ended
	Alpha Dental Programs, Inc.	Alpha Dental Alabama	Alpha Dental of Arizona	Alpha Dental of Nevada	Alpha Dental of New Mexico	Alpha Dental of Utah	December 31, 2014
						Total	Total
Premiums and other income							
Commercial programs	\$ 25,582	\$ 149	\$ 2,124	\$ 1,767	\$ 315	\$ 977	\$ 30,914
Investment income, net	107	10	10	11	5	15	158
Other income (expense), net	28	(1)	(1)	(3)	-	-	23
	<u>25,717</u>	<u>158</u>	<u>2,133</u>	<u>1,775</u>	<u>320</u>	<u>992</u>	<u>31,095</u>
Claims and operating expenses							
Claims incurred	14,655	47	1,518	1,298	221	573	18,312
Operating expenses	6,790	57	426	372	76	229	7,950
	<u>21,445</u>	<u>104</u>	<u>1,944</u>	<u>1,670</u>	<u>297</u>	<u>802</u>	<u>26,262</u>
Net income	<u>\$ 4,272</u>	<u>\$ 54</u>	<u>\$ 189</u>	<u>\$ 105</u>	<u>\$ 23</u>	<u>\$ 190</u>	<u>\$ 4,833</u>
							<u>\$ 5,449</u>