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*Attorneys for the Department of Insurance*

**FILED**  
**JUN 28 2016** *KG*  
Department of Insurance  
State of Idaho

**BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE**  
**STATE OF IDAHO**

In the Matter of:

WILLAMETTE DENTAL OF IDAHO, INC.

Certificate of Authority No. 3067  
NAIC No. 95819

Docket No. 18-3178-16

**ORDER ADOPTING REPORT  
OF EXAMINATION AS OF  
DECEMBER 31, 2014**

The State of Idaho, Department of Insurance (Department), having conducted an examination of the affairs, transactions, accounts, records, and assets of Willamette Dental of Idaho, Inc. (Willamette Dental), a managed care organization, pursuant to Idaho Code §§ 41-3911 and 41-219(1) and (5), hereby alleges the following facts that constitute a basis for issuance of an order, pursuant to Idaho Code § 41-227(5)(a), adopting the Report of Examination of Willamette Dental of Idaho, Inc., as of December 31, 2014 (Report), as filed.

## **FINDINGS OF FACT**

1. Willamette Dental is an Idaho-domiciled managed care organization licensed to transact managed care insurance in Idaho under Certificate of Authority No. 3067.

2. The Department completed an examination of Willamette Dental pursuant to Idaho Code §§ 41-3911 and 41-219(1) and (5) on or about June 7, 2016. The Department's findings are set forth in the Report.

3. Pursuant to Idaho Code § 41-227(4), a copy of the Report, verified under oath by the Department's examiner-in-charge, was filed with the Department on June 7, 2016, and a copy was transmitted to Willamette Dental on June 8, 2016. A copy of the verified Report is attached hereto as Exhibit A.

4. On or about June 16, 2016, the Department received a Waiver from Willamette Dental signed by Justin West, Vice President of Finance and Technology for Willamette Dental. By execution of such Waiver, a copy of which is attached hereto as Exhibit B, Willamette Dental consented to the immediate entry of a final order by the Director of the Department (Director) adopting the Report without any modifications; waived its right to make a written submission or rebuttal to the Report; and waived its right to request a hearing and to seek reconsideration or appeal from the Director's final order.

5. No written submissions or rebuttals with respect to any matters contained in the Report were received by the Department from Willamette Dental.

## **CONCLUSIONS OF LAW**

6. Idaho Code § 41-227(5)(a) provides that "[w]ithin thirty (30) days of the end of the period allowed for the receipt of written submissions or rebuttals, the director shall fully consider and review the report, together with any written submissions or rebuttals and relevant

portions of the examiner's work papers" and shall enter an order adopting the report of examination as filed or with modifications or corrections.

7. Having fully considered the Report, the Director concludes that Willamette Dental meets the minimum surplus requirements established pursuant to Idaho Code § 41-3905(2).

**ORDER**

NOW, THEREFORE, based on the foregoing, IT IS HEREBY ORDERED that the Report of Examination of Willamette Dental of Idaho, Inc., as of December 31, 2014, is hereby ADOPTED as filed, pursuant to Idaho Code § 41-227(5)(a).

IT IS FURTHER ORDERED, pursuant to Idaho Code § 41-227(8), that the adopted Report is a public record and shall not be subject to the exemptions from disclosure provided in chapter 1, title 74, Idaho Code.

IT IS FURTHER ORDERED, pursuant to Idaho Code § 41-227(6)(a), that, within thirty (30) days of the issuance of the adopted Report, Willamette Dental shall file with the Department's Deputy Chief Examiner affidavits executed by each of its directors stating under oath that they have received a copy of the adopted Report and related orders.

**IT IS SO ORDERED.**

DATED this 28 day of June, 2016.

STATE OF IDAHO  
DEPARTMENT OF INSURANCE

  
DEAN L. CAMERON  
Director

### NOTIFICATION OF RIGHTS

This Order constitutes a final order of the Director. Any party may file a motion for reconsideration of this final order within fourteen (14) days of the service date of this order. The Director will dispose of the petition for reconsideration within twenty-one (21) days of its receipt, or the petition will be considered denied by operation of law. *See*, Idaho Code § 67-5246(4).

Pursuant to Idaho Code §§ 67-5270 and 67-5272, any party aggrieved by this final order may appeal it by filing a petition for judicial review in the district court of the county in which: (1) the hearing was held; or (2) the final agency action was taken; or (3) the aggrieved party resides or operates its principal place of business in Idaho; or (4) the real property or personal property that was the subject of the agency decision is located. An appeal must be filed within twenty-eight (28) days of: (a) the service date of this final order; or (b) an order denying a petition for reconsideration; or (c) the failure within twenty-one (21) days to grant or deny a petition for reconsideration, whichever is later. *See*, Idaho Code § 67-5273. The filing of a petition for judicial review does not itself stay the effectiveness or enforcement of the order under appeal.

**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that, on this 28 day of June, 2016, I caused a true and correct copy of the foregoing ORDER ADOPTING REPORT OF EXAMINATION AS OF DECEMBER 31, 2014, to be served upon the following by the designated means:

Willamette Dental of Idaho, Inc.  
Attn: Justin West, VP of Finance & Technology  
6950 NE Campus Way  
Hillsboro, OR 97124-5611  
[jwest@willamettedental.com](mailto:jwest@willamettedental.com)

- first class mail
- certified mail
- hand delivery
- email

Georgia Siehl, CPA, CFE  
Bureau Chief / Chief Examiner  
Idaho Department of Insurance  
700 W. State Street, 3<sup>rd</sup> Floor  
Boise, ID 83720-0043  
[georgia.siehl@doi.idaho.gov](mailto:georgia.siehl@doi.idaho.gov)

- first class mail
- certified mail
- hand delivery
- email

  
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DEPARTMENT OF INSURANCE

STATE OF IDAHO



REPORT OF EXAMINATION

Of

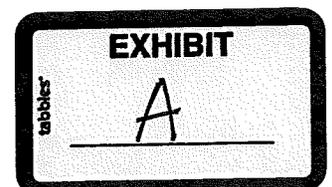
WILLAMETTE DENTAL OF IDAHO, INC.

(Disability, Managed Care Insurer)

(NAIC Company Code: 95819)

As of

December 31, 2014



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Hillsboro, Oregon

June 7, 2016

Mr. Dean Cameron  
Director of Insurance  
State of Idaho  
Department of Insurance  
700 West State Street  
P.O. Box 83720  
Boise, Idaho 83720-0043

Dear Director:

Pursuant to your instructions, in compliance with Idaho Code §41-219(1) and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2014, of the financial condition and corporate affairs of:

Willamette Dental of Idaho, Inc.  
8950 W. Emerald Street, Suite 108  
Boise, Idaho 83704

Hereinafter referred to as the "Company", at the primary location of its books and records in Hillsboro, Oregon. The following report of examination is respectfully submitted.

## SCOPE OF EXAMINATION

### *Period Covered*

We have performed our full scope, risk-focused coordinated examination of Willamette Dental of Idaho, Inc. The last exam was completed as of December 31, 2010. This examination covers the period of January 1, 2011 through December 31, 2014.

This examination was a coordinated examination, in which Washington was the lead state with participation from examiners from the states of Idaho and Oregon, and was conducted concurrently with the examinations of the following insurance companies:

Willamette Dental Insurance, Inc. (Oregon)  
Willamette Dental of Washington, Inc.

### *Examination Procedures Employed*

Our examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* to determine compliance with accounting practices and procedures in conformity with the applicable laws of the State of Idaho, and insurance rules promulgated by the Idaho Department of Insurance (Department). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. The examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with NAIC Accounting Practices and Procedures Manual (SSAPs) and Annual Statement instructions when applicable to domestic state regulations.

The Company retained the services of a certified public accounting firm, Perkins & Company, P.C., Portland, Oregon, to audit its financial records for the years under examination. The firm provided the examiners access to requested work papers prepared in connection with its audits. The external audit work was relied upon where deemed appropriate.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

The examination determined the risks associated with identified key functional activities of the Company's operations and considered mitigating factors. Interviews were held with the senior management of the Company to gain an understanding of the entity's operating profile and control environment.

This examination report includes findings of fact, as mentioned in Idaho Code §41-227(2) and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Company.

A letter of representation certifying that management disclosed all significant matters and records was obtained from management and included in the examination working papers.

#### *Status of Prior Examination Findings*

Our examination included a review to determine the current status of the exception condition commented upon in our preceding Report of Examination, dated December 31, 2010, which covered the period from January 1, 2006 to December 31, 2010. We determined that the Company had satisfactorily addressed the exception condition.

### **SUMMARY OF SIGNIFICANT FINDINGS**

Our examination did not disclose any material adverse findings or any adjustments that impacted the Company's reported capital and surplus.

### **SUBSEQUENT EVENTS**

We noted no significant subsequent events as of the date of this report.

### **COMPANY HISTORY**

#### *General*

The Company was incorporated on July 22, 1998 under the laws of the State of Idaho. Effective September 11, 1998, the Director of the Idaho Department of Insurance issued a Certificate of Authority to transact business in this State as a disability, managed care only company. The Company is a limited managed care company offering dental care services as provided in Idaho Code §41-3903(13). The Idaho Department of Insurance required the Company to maintain a premium to surplus ratio of seven to one with a minimum of \$50,000 pursuant to Idaho Code §41-3905(2). The Department further agreed that a minimum capital and surplus requirement of \$200,000 would be reached no later than three years after the issuance of the Certificate of Authority.

Effective December 2, 2002, the Company changed its name from Columbia Dental of Idaho, Inc. to Willamette Dental of Idaho, Inc.

On May 9, 2003, the Idaho Department of Insurance approved the acquisition by the Company of Willamette Dental Insurance, Inc. (an Oregon insurer) and Willamette Dental of Washington, Inc. (a Washington insurer). The Company was authorized to issue 50,000 new shares of stock to Dr. Eugene Skourtes, the ultimate owner of the Company, in exchange for all shares of stock of these affiliated companies. This acquisition was deemed to be a merger for purposes of Idaho Code §41-715(2). The investment in these affiliates may be recorded as a statutory asset without limitation.

#### *Capital Contributions*

The Company's Articles of Incorporation authorized the issuance of 50,000 shares of common stock with a \$1.00 par value. The Articles of Amendment to the Articles of Incorporation changed the authorized shares from 50,000 to 174,483 shares of \$1.00 par value common stock. Each Director was a stockholder of the Company, meeting the requirements of Idaho Code §41-2835(3). The Directors each purchased a qualifying share of capital stock at book value. Idaho Code §41-2835(3) was subsequently amended in 2003 whereby Directors are no longer required to own a share of stock in order to be a director.

The activity in the capital structure since inception of the Company is illustrated below:

| <u>Year</u> | <u>Number of<br/>Shares Issued</u> | <u>Value of<br/>Common Stock</u> | <u>Surplus Paid in<br/>or Contributed</u> |
|-------------|------------------------------------|----------------------------------|---|
| 1998        | 50,000 (a)                         | \$ 50,000                        | \$ 0                                      |
| 1999        | 0                                  | \$ 0                             | \$ 220,000 (b)                            |
| 2003        | 124,483 (c)                        | <u>\$124,483</u>                 | \$2,995,593 (c)                           |
| 2008        | <u>(1) (d)</u>                     | <u>\$ (1)</u>                    | <u>\$ 0</u>                               |
| Totals      | <u>174,482</u>                     | <u>\$174,482</u>                 | <u>\$3,215,593</u>                        |

(a) Initial sale includes one share to each of the five Directors. The remaining 49,995 shares are owned by Eugene C. Skourtes, Trustee, U/A/D 04/23/92, the Eugene C. Skourtes Revocable Trust.

(b) Dr. Eugene Skourtes contributed \$220,000 in surplus during 1999 to help cover some of the initial operating losses incurred by the Company.

(c) Willamette Dental Insurance, Inc. and Willamette Dental of Washington, Inc. were acquired with a total value of \$3,120,076. For this transaction, 124,483 shares of stock with a par value of \$1.00 were issued to Dr. Skourtes.

(d) One share issued to a Director in 1998 (a) was conveyed back to the Company and cancelled on or about October 21, 2008.

The total common capital stock was \$174,482 and paid-in or contributed surplus was \$3,215,593 at December 31, 2014. See Note (3) of *NOTES TO FINANCIAL STATEMENTS* for additional comments.

*Surplus Debentures*

Effective December 30, 1999, the Company began issuing surplus notes to Willamette Dental Management Corporation (formerly Denkor Dental Management Corporation, Beaverton, Oregon). The notes were being used to offset the losses incurred through the quarter ending December 31, 1999. The Board of Directors passed a Corporate Resolution to Borrow on December 30, 1999. The Resolution allowed the Company to borrow up to \$300,000 at any one time. At the same time, the directors of Willamette Dental Management Corporation authorized it lend up to \$300,000 at any one time to Willamette Dental of Idaho, Inc.

The two companies also signed a Surplus Loan Agreement. This Agreement outlines the terms of the various borrowings. The agreement shall be indefinite until all indebtedness of the Company to Willamette Dental Management Corporation has been performed in full and the parties terminate the agreement in writing. The loans shall bear interest at the rate of 6 percent per annum. The Company will repay the loan in full, with accrued interest, 24 months from the date of each successive note subject to the approval of the Idaho Department of Insurance. The Company may pre-pay without penalty, subject to its compliance with the terms of the surplus note with subordination and prior approval requirements of the agreement.

During the current examination period, the Company did not issue any additional surplus notes. The Company received proper approvals from the Idaho Department of Insurance prior to the repayments made during the current examination period.

The surplus notes issued by the Company are illustrated in the following chart:

| <u>Date Issued</u> | <u>Par Value (Face Amount of Notes)</u> | <u>Dates Idaho DOI Approved Repayment</u> | <u>Principal Approved for Repayment</u> | <u>Carrying Value as of 12/31/2014</u> |
|--------------------|---|---|---|--|
| 12/30/1999         | \$ 175,000                              | 6/30/2005                                 | (\$ 175,000)                            | \$ 0                                   |
| 03/28/2000         | 275,000                                 | 6/27/2007                                 | (275,000)                               | 0                                      |
| 06/30/2000         | 250,000                                 | 6/08/2006                                 | (250,000)                               | 0                                      |
| 11/01/2000         | 300,000                                 | 6/02/2008                                 | (300,000)                               | 0                                      |
| 12/11/2000         | 200,000                                 | 11/24/2008                                | (200,000)                               | 0                                      |
| 03/26/2001         | 275,000                                 | 11/24/2008                                | (275,000)                               | 0                                      |
| 06/28/2001         | 200,000                                 | 4/10/2009                                 | (200,000)                               | 0                                      |
| 09/30/2001         | 100,000                                 | 12/3/2010                                 | (100,000)                               | 0                                      |
| 09/30/2001         | 300,000                                 | ---                                       | ---                                     | 300,000                                |
| 03/30/2003         | 250,000                                 | 6/20/2013                                 | (250,000)                               | 0                                      |
| 08/31/2003         | 300,000                                 | 6/24/2014                                 | (300,000)                               | 0                                      |
| Total:             | <u>\$2,625,000</u>                      |   | <u>(\$2,325,000)</u>                    | <u>\$300,000</u>                       |

The surplus note of \$300,000 issued on September 30, 2001 was outstanding as of December 31, 2014.

## CORPORATE RECORDS

The meetings of the Board of Directors and Shareholders were conducted on a quarterly and an annual basis, respectively, for all the years under examination.

## MANAGEMENT AND CORPORATE GOVERNANCE

The bylaws of the Company indicate the number of Directors shall be not less than five (5) nor more than fifteen (15). The following persons served as Directors of the Company as of December 31, 2014:

| <u>Name and Business Address</u>                         | <u>Principal Occupation</u>  |
|--|--|
| Eugene Constantine Skourtes, D.M.D.<br>Hillsboro, Oregon | President and Secretary,<br>Willamette Dental of Idaho, Inc.                                   |
| Diane Rae Keys<br>Boise, Idaho                           | Director of Legislative and Education,<br>Independent Insurance Agents and<br>Brokers of Idaho |
| Wendy Jo Tippetts<br>Boise, Idaho                        | President and Owner, Association<br>Services Group, Inc.                                       |
| Douglas Lee Taylor<br>Boise, Idaho                       | Outside Sales Marketing Consultant,<br>Boise Weekly  |
| Wee Yuen Chin<br>Hillsboro, Oregon                       | Treasurer and Chief Financial Officer,<br>Willamette Dental of Idaho, Inc.                     |

The number of Directors serving the Company at year-end 2014 was in compliance with the Company's bylaws and Idaho Code §41-2835(1).

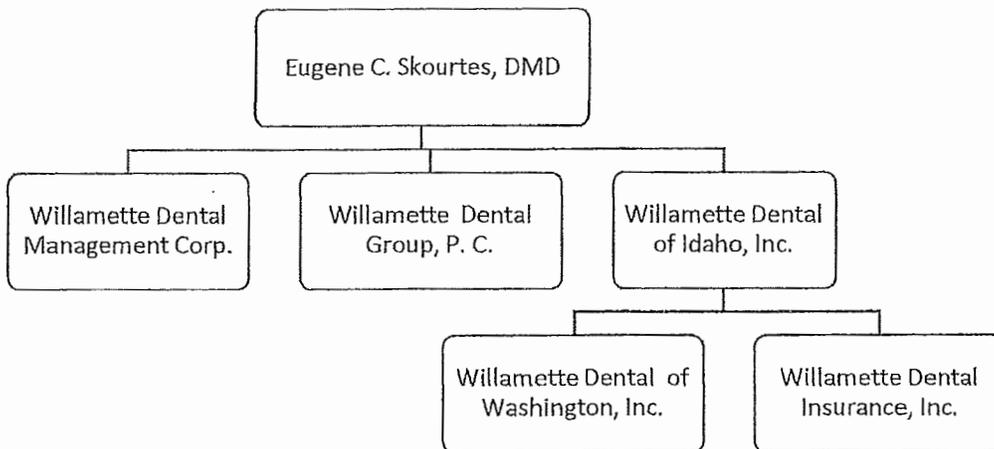
The bylaws require the Company to have a President and a Secretary and such other officers as the Board of Directors may prescribe, including a Vice President and a Treasurer. Such other officers and assistant officers and agents as may be necessary may be elected or appointed by the Board of Directors. Any two or more offices may be held by the same person. The following persons served as officers of the Company as of December 31, 2014:

|                                     |                       |
|-------------------------------------|-----------------------|
| Eugene Constantine Skourtes, D.M.D. | President             |
| Vacant                              | Senior Vice President |
| Eugene Constantine Skourtes, D.M.D. | Secretary             |
| Wee Yuen Chin                       | Treasurer             |

Pursuant to the Company's bylaws, the Board of Directors, by resolution adopted by a majority of the full board, may designate two or more of its members to constitute an Executive Committee. The Board has not designated an Executive Committee; therefore, the Board of Directors acts as the Executive Committee.

An Audit Committee was also not designated by the Company. Therefore, the Company's entire Board of Directors constitutes the Audit Committee as permitted by IDAPA 18.01.62.010.03.

The Company is a member of an insurance holding company system. Eugene C. Skourtes, D.M.D. is the ultimate controlling person, as noted in the following abridged organizational chart:



As of the examination report date, the Company's ownership interest in Willamette Dental Insurance, Inc. and Willamette Dental of Washington, Inc., was 100 percent.

#### Inter-company Agreements

##### *Intercompany Tax Sharing Agreement*

The Company entered into an intercompany tax sharing agreement with its subsidiaries, Willamette Dental Insurance, Inc. and Willamette Dental of Washington, Inc., effective July 1, 2003. Under the terms of the agreement, the parties agreed to file a consolidated federal tax return. Each company will be liable for its appropriate share of the taxes to be computed as if each individual company was a separate entity. The subsidiaries shall pay the Company on a quarterly basis no later than the due date of the estimated quarterly payment.

*Dental Provider Agreement*

The Company entered into a dental provider agreement with Willamette Dental Group, P.C., effective January 1, 2004. Under the terms of this agreement, Willamette Dental Group, P.C. agrees to provide dental providers to perform all covered dental services for the Company. The services provided include, but are not limited to diagnostic, preventative, restorative, periodontal, oral surgery and orthodontic.

The Company also pays Willamette Dental Group, P.C. for dental provider services through a capitation plan based upon a flat percentage of the subscriber's gross premiums. The capitation payment shall be paid no later than the 15th of the month following the month the premium is received. Claim expenses paid to Willamette Dental Group, P.C. in 2014 totaled \$5,998,982.

*Business Services Agreement*

The Company entered into a business services agreement with Willamette Dental Management Corporation effective January 1, 2004. Under the terms of this agreement, Willamette Dental Management agrees to provide complete management and administrative services to the Company. The services provided include, but are not limited to, recruitment of dentists and paraprofessionals, marketing, underwriting, collection of premiums, accounting, and processing and payment of claims.

Willamette Dental Management Corporation is compensated for all office expenses actually paid by Willamette Dental Management Corporation for the Company plus a fixed, monthly business services fee. The fee shall cover all costs, not limited to but including management fees, sales and advertising expenses, policy forms and supplies, and all other expenses, other than costs or expenses specified or allowed elsewhere in the agreement. The fees are to be paid by the Company on a monthly basis within five days following the end of the month.

The agreement was initially for ten years and then automatically renews for successive one-year periods thereafter. The agreement has an arbitration clause and may be mutually terminated in writing on a date specified in such written agreement.

A new business services agreement was executed between Willamette Dental Management Corporation and the Company effective October 1, 2014. This agreement has similar terms to the business services agreement effective January 1, 2004. The term of the new agreement will be for an initial period of forty years commencing on October 1, 2014, and shall be automatically renewed for successive one year periods thereafter. Written notice of termination shall be at least 365 days before the end of the initial term or any renewal term, unless terminated for other reasons specified in the agreement.

The parties shall establish annually, through the budget setting process, a fair and reasonable amount for the administrative and management services fees for the upcoming year. The fee amount is based upon, but not limited to, factors such as the reasonable value of the business services to be provided by Willamette Dental Management Corporation based on current and historical cost and pricing information, changes in the Company's business, and commercial third party administrator market rates. The fee is to be paid monthly in arrears. The Company paid

\$348,804 in administrative and management services fees to Willamette Dental Management in 2014.

## FIDELITY BONDS AND OTHER INSURANCE

The minimum fidelity bond coverage suggested by the NAIC for an insurer of the Company's size and premium volume is not less than \$175,000. As of December 31, 2014, the Company had sufficient fidelity bond coverage of \$1,000,000.

The Company also has additional insurance protection for property; general liability; business auto; umbrella coverage; earthquake and flood; professional errors and omissions; privacy network protection, and directors and officers/employment practices/fiduciary liability coverages.

## TERRITORY AND PLAN OF OPERATION

As of December 31, 2014, the Company is licensed in the State of Idaho as a managed care organization authorized to write disability, managed care only business. The Company's line of business is dental insurance marketed to groups and through partnerships with other carriers in Idaho to provide dental products. Insurance products are marketed through an agency force of approximately 220 agents.

The Company has locations for handling patients in Boise, Coeur d'Alene, Idaho Falls, Meridian, and Twin Falls, Idaho.

## GROWTH OF THE COMPANY

The following represents the Company's Premium Activity and its relationship to surplus over the period of our examination.

|   | 2014         | 2013       | 2012       | 2011       |
|---|--------------|------------|------------|------------|
| Gross Written Premium                                     | \$ 6,866,103 | 6,543,664  | 7,060,329  | 6,956,948  |
| Policyholder Surplus                                      | \$17,248,662 | 16,235,228 | 14,814,302 | 12,878,481 |
| Gross Written Premium<br>to Policyholder Surplus<br>Ratio | 40%          | 40%        | 48%        | 54%        |

## LOSS EXPERIENCE

The following represents the Company's loss experience and its relationship to net premium income over the period of our examination:

|  | 2014        | 2013      | 2012      | 2011      |
|--|-------------|-----------|-----------|-----------|
| Net Premium Earned   | \$6,866,103 | 6,543,664 | 7,060,329 | 6,956,948 |
| Claims Incurred  | \$5,998,982 | 5,703,817 | 6,184,713 | 6,082,028 |
| Claims Adjustment Expenses Incurred (AEI)                            | \$ 0        | 0         | 0         | 0         |
| Total Claims and Claims AEI  | \$5,998,982 | 5,703,817 | 6,184,713 | 6,082,028 |
| Total Claims and Claims AEI to Net Premium Earned Ratio (Loss Ratio) | 87%         | 87%       | 88%       | 87%       |

## REINSURANCE

### *Assumed*

The Company did not assume any reinsurance as of December 31, 2014.

### *Ceded*

The Company did not ceded any reinsurance as of December 31, 2014.

## ACCOUNTS AND RECORDS

The annual independent audits of the Company for the years 2011 through 2014 were performed by Perkins & Co., P.C., Portland, Oregon. Their audit reports were made available for the examination.

Document and information requests for the examination were made in writing. The Company provided the requested documentation and information in a timely manner.

## STATUTORY DEPOSITS

Pursuant to Idaho Code §41-316A and Idaho Code §41-3905(7), the Company was required to maintain a deposit in an amount not less than \$25,000. The examination confirmed the Company maintained a statutory deposit with the State of Idaho consisting of the following investments, with total par value of \$105,000 which was adequate to cover the required deposit.

| Description                        | Par Value | Statement Value | Market Value |
|------------------------------------|-----------|-----------------|--------------|
| Idaho Department of Insurance:     |           |                 |              |
| Wells Fargo Certificate of Deposit | \$ 50,000 | \$ 50,000       | \$ 50,000    |
| Wells Fargo Certificate of Deposit | \$ 55,000 | \$ 55,000       | \$ 55,000    |
| Totals                             | \$105,000 | \$105,000       | \$105,000    |

## FINANCIAL STATEMENTS

### Balance Sheet

[As of December 31, 2014]

### Statement of Revenue and Expenses

[As of December 31, 2014]

### Reconciliation of Surplus

[For all the years under examination]

### Analysis of Changes in Financial Statements Resulting From Examination

Balance Sheet  
As of December 31, 2014

ASSETS

|   |                     |
|---|---------------------|
| Common stocks (Note 1)  | \$17,129,379        |
| Cash (\$108,230), cash equivalents (\$0) and short-term investments (\$105,004) | 213,234             |
| <b>Total Invested Assets</b>  | <b>\$17,342,613</b> |
| Uncollected premiums and agents' balances in the course of collection           | 98,808              |
| Current federal and foreign income tax recoverable and interest thereon         | 522,234             |
| <b>Total Assets</b>   | <b>\$17,963,655</b> |

LIABILITIES, CAPITAL AND SURPLUS

|  |                     |
|--|---------------------|
| Aggregate health policy reserves, including the liability of \$0 for medical loss ratio rebate per Public Health Service Act(Note 2) | \$ 13,980           |
| Premiums received in advance   | 37,351              |
| General expenses due or accrued  | 32,428              |
| Amounts due to parent, subsidiaries and affiliates   | 631,234             |
| <b>Total Liabilities</b>   | <b>\$ 714,993</b>   |
| **Aggregate write-ins for special surplus funds  | 60,000              |
| Common capital stock (Note 3)  | 174,483             |
| Gross paid in and contributed surplus  | 3,215,593           |
| Surplus notes  | 300,000             |
| Unassigned funds (surplus)   | 13,498,586          |
| <b>Total Capital and Surplus</b>   | <b>\$17,248,662</b> |
| <b>Total Liabilities, Capital and Surplus</b>  | <b>\$17,963,655</b> |

\*\*Estimate ACA fee for 2015: \$60,000.

Statement of Revenue and Expenses  
As of December 31, 2014

|  |    |           |                |
|--|----|-----------|----------------|
| Net premium income   |    | \$        | 6,866,103      |
| Total Revenues   |    | \$        | 6,866,103      |
| Other professional services  | \$ | 5,998,982 |                |
| Total hospital and medical   | \$ | 5,998,982 |                |
| General administrative expenses  |    | 671,833   |                |
| Total underwriting deductions  |    |           | 6,670,815      |
| Net underwriting gain (loss)   |    |           | \$ 195,288     |
| <br>   |    |           |                |
| Net investment income earned   | \$ | 34        |                |
| Net investment gains (losses)  |    |           | 34             |
| *Aggregate write-ins for other income or expenses                                      |    |           | (194,200)      |
| Net income (loss) after capital gains tax and before<br>all other federal income taxes |    | \$        | 1,122          |
| Federal and foreign income taxes incurred  |    |           | 7,284          |
| <b>Net Income (Loss)</b>   |    | \$        | <b>(6,162)</b> |

\*Interest Expense-Surplus Note: \$(194,200).

Reconciliation of Surplus

|  | <u>2014</u>         | <u>2013</u>         | <u>2012</u>         | <u>2011</u>         |
|--|---------------------|---------------------|---------------------|---------------------|
| Capital and surplus prior reporting year                 | \$ 16,235,228       | \$14,814,302        | \$12,878,481        | \$10,949,814        |
| Net income or (loss)                                     | (6,162)             | 45,707              | 79,874              | 105,717             |
| Change in net unrealized capital gains (losses) (Note 1) | 1,311,904           | 1,619,342           | 1,858,899           | 1,815,159           |
| Change in nonadmitted assets                             | 7,693               | 5,877               | (2,953)             | 7,791               |
| Change in surplus notes                                  | (300,000)           | (250,000)           | -                   | -                   |
| *Aggregate write-ins for gains or (losses) in surplus    | (1)                 | -                   | 1                   | -                   |
| Net change in capital and surplus                        | \$ 1,013,434        | \$1,420,926         | \$1,935,821         | \$1,928,667         |
| Capital and surplus end of reporting period              | <u>\$17,248,662</u> | <u>\$16,235,228</u> | <u>\$14,814,302</u> | <u>\$12,878,481</u> |

\*Rounding: \$(1); \$1.

Analysis of Changes in Financial Statements Resulting From Examination

There were no adjustments made to surplus in the Report of Examination.

**NOTES TO FINANCIAL STATEMENTS**

|          |  |              |
|----------|--|--------------|
| Note (1) | Common stocks  | \$17,129,379 |
|          | Change in net unrealized capital gains (losses) (2014) | \$ 1,311,904 |

Effective July 1, 2003, the Company acquired 100 percent of the outstanding stock of Willamette Dental Insurance, Inc. and Willamette Dental of Washington, Inc. in exchange for a stock subscription with the sole shareholder of the two insurance entities. The Company accounts for its investments in its subsidiaries using the equity method set forth in SSAP No. 97, paragraph 8.b. The difference between cost and carrying value of the subsidiaries reported by the respective subsidiaries in the most recently filed Annual Statements filed with the states of Oregon and Washington is taken to the Capital and Surplus Account as unrealized capital gain or loss.

The carrying values of the Company's investments in Willamette Dental Insurance, Inc. and Willamette Dental of Washington, Inc. as of December 31, 2014, are as follows:

|                                       |                     |
|---------------------------------------|---------------------|
| Willamette Dental Insurance, Inc.     | \$ 6,771,916        |
| Willamette Dental of Washington, Inc. | <u>10,357,463</u>   |
| Total:                                | <u>\$17,129,379</u> |

Note (2) Aggregate health policy reserves, including the liability of \$0 for medical loss ratio rebate per Public Health Service Act \$ 13,980

Lynn F. Dong, FSA, MAAA, Principal and Consulting Actuary with the firm of Milliman, Inc., Seattle, Washington, examined the assumptions and methods used in determining aggregate health policy reserves as of December 31, 2014. In Mr. Dong's opinion, the amounts carried in the balance sheet:

- Are in accordance with the accepted actuarial standards consistently applied and are fairly stated in accordance with sound actuarial principles,
- Are based on actuarial assumptions relevant to contract provisions and appropriate to the purpose for which the statement was prepared,
- Meet the requirements of the insurance laws and regulations of the State of Idaho and are at least as great as the minimum aggregate amounts required by the state in which this statement is filed,
- Make a good and sufficient provision for all unpaid claims and other actuarial liabilities of the organization under the terms of its contracts and agreements,
- Are computed on the basis of assumptions and methods consistent with those used in computing the corresponding items in the annual statement of the proceeding year-end, and
- Include appropriate provision for all actuarial items that ought to be established.

Note (3) Common capital stock \$ 174,483

The Company reported Common capital stock of \$174,483 in its Annual Statements for all years under examination. This represented 174,483 shares of issued and outstanding common stock with a \$1.00 par value. As previously reported, one share of common stock issued to a Director in 1998 was conveyed back to the Company and cancelled on or about October 21, 2008 upon that Director's retirement. However, the Company's Common capital stock was not adjusted accordingly for the cancelled share, causing Common capital stock to be overstated by one share of \$1.00 par value. As the amount is immaterial, an adjustment was not made to surplus in the Report of Examination. See *COMPANY HISTORY, Capital Contributions* for additional comments.

## COMMENTS AND RECOMMENDATIONS

### *Authorization or Approval of Investment Transactions*

The Company invests its funds in time certificates (certificates of deposit), which are eligible assets under Idaho Code § 41-720. The time certificates are held as statutory deposits on behalf of the Idaho Department of Insurance. A review of Schedule DA - Part 1 of the 2011, 2012, 2013, and 2014 Annual Statements indicated that time certificates were acquired each year during the examination period.

However, a review of the Board of Directors' meeting minutes indicated that the Board did not authorize or approve these investment transactions. Pursuant to Idaho Code § 41-704, the Board or a committee charged by the Board or its bylaws is required to authorize or approve investment transactions. If a committee is charged with that duty, investment reports shall be submitted to the Board for approval or disapproval. The minutes of any such committee shall be recorded.

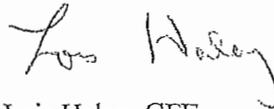
### RECOMMENDATION:

It is recommended that in the future, the Board of Directors authorize or approve all investment transactions and document such approval in the corporate minutes. As a reminder, the Company shall make a written record in permanent form, signed by an officer of the Company, and contain such other information as required by Idaho Code § 41-705. The February 25, 2016 Board minutes documented the Board's unanimous approval to renew the certificate of deposit at US Bank.

## ACKNOWLEDGEMENT

The undersigned acknowledges the assistance and cooperation extended during the course of the examination by representatives of the Company.

Respectfully submitted,



Lois Haley, CFE  
Examiner-in-Charge  
Representing the Idaho Department of Insurance

State of Idaho  
**DEPARTMENT OF INSURANCE**

C. L. "BUTCH" OTTER  
Governor

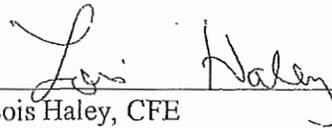
700 West State Street, 3rd Floor  
P.O. Box 83720  
Boise, Idaho 83720-0043  
Phone (208)334-4250  
FAX # (208)334-4398

DEAN L. CAMERON  
Director

AFFIDAVIT OF EXAMINER

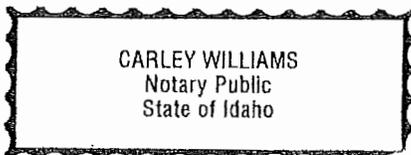
State of Idaho  
County of Ada

Lois Haley, being duly sworn, deposes and says that she is a duly appointed Examiner for the Department of Insurance of the State of Idaho, that she has made an examination of the affairs and financial condition of Willamette Dental of Idaho, Inc., for the period from January 1, 2011 through December 31, 2014, including subsequent events, that the information contained in the report consisting of the foregoing pages is true and correct to the best of her knowledge and belief, and that any conclusions and recommendations contained in the report are based on the facts disclosed in the examination.



Lois Haley, CFE  
Examiner-in-Charge  
Representing the Idaho Department of Insurance

Subscribed and sworn to before me the 7 day of June, 2016 at Boise, Idaho.



Carley Williams  
Notary Public

My commission expires: My Commission Expires  
October 3, 2017

State of Idaho

**DEPARTMENT OF INSURANCE**

C. L. "BUTCH" OTTER  
Governor

700 West State Street, 3rd Floor  
P.O. Box 83720  
Boise, Idaho 83720-0043  
Phone (208)334-4250  
FAX # (208)334-4398

DEAN L. CAMERON  
Director

**WAIVER**

In the matter of the Report of Examination as of December 31, 2014, of the:

**WILLAMETTE DENTAL OF IDAHO, INC.**  
18950 W. Emerald Street, Suite 108  
Boise, Idaho 83704

By executing this Waiver, the Company hereby acknowledges receipt of the above-described examination report, verified as of the 7th day of June, 2016, and by this Waiver hereby consents to the immediate entry of a final order by the Director of the Department of Insurance adopting said report without any modifications.

By executing this Waiver, the Company also hereby waives:

1. its right to examine the report for up to thirty (30) days as provided in Idaho Code section 41-227(4),
2. its right to make a written submission or rebuttal to the report prior to entry of a final order as provided in Idaho Code section 41-227(4) and (5),
3. any right to request a hearing under Idaho Code sections 41-227(5) and (6), 41-232(2)(b), or elsewhere in the Idaho Code, and
4. any right to seek reconsideration and appeal from the Director's order adopting the report as provided by section 41-227(6), Idaho Code, or elsewhere in the Idaho Code.

Dated this 16<sup>th</sup> day of June, 2016

**WILLAMETTE DENTAL OF IDAHO, INC.**

Justin West

Name (print)

[Signature]

Name (signature)

Vice President of Finance & Technology

Title

**EXHIBIT**

B