

LAWRENCE G. WASDEN  
Attorney General

JOHN C. KEENAN  
Deputy Attorney General  
Idaho Department of Insurance  
700 W. State Street  
P.O. Box 83720  
Boise, Idaho 83720-0043  
Telephone: (208) 334-4210  
Facsimile: (208) 334-4298  
I.S.B. No. 3873

FILED 

JUN 29 2012

Department of Insurance  
State of Idaho

*Attorneys for Department of Insurance*

**BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE**

**STATE OF IDAHO**

In the Matter of:

WILLAMETTE DENTAL OF IDAHO, INC.

Idaho Certificate of Authority: 3067  
NAIC Company Code: 95819

Docket No. 18-2776-12

**ORDER ADOPTING  
REPORT OF EXAMINATION  
AS OF DECEMBER 31, 2010**

The Report of Examination as of December 31, 2010 of WILLAMETTE DENTAL OF IDAHO, INC. (the Company) was completed by an examiner of the Idaho Department of Insurance (Department), and signed the 23<sup>rd</sup> day of April 2012 by the examiner-in-charge, David W. Emery, CFE, FLMI. A verified copy was filed with the Department effective April 23, 2012. The verified report was transmitted to the Company electronically on April 24, 2012, to Mr. Justin K. West, Sr. Director of Finance, with copies going to Dr. Eugene C. Skourtes, President, and Wee Yeun Chin, Treasurer. The final report, attached hereto as Exhibit A and incorporated herein in full, is identical to the verified report.

**WAIVER**

Based upon the Waiver, attached hereto as Exhibit B and incorporated herein, which was signed by Mr. West on April 27, 2012 and received electronically by the Department on April 30, 2012, this is a final order, and the Company has waived its rights to seek reconsideration and judicial review of this order.


**ORDER**

NOW THEREFORE, after carefully reviewing the above-described Report of Examination, attached hereto as Exhibit A, and good cause appearing therefor,

IT IS HEREBY ORDERED that the above-described report, which includes the findings, conclusions, comments and recommendations supporting this order, is hereby ADOPTED as the final examination report and as an official record of the Department under Idaho Code § 41-227(5)(a).

DATED and EFFECTIVE at Boise, Idaho this 28<sup>TH</sup> day of June, 2012.

IDAHO DEPARTMENT OF INSURANCE

by   
WILLIAM W. DEAL  
Director

**CERTIFICATE OF SERVICE**


I hereby certify that on this 29<sup>th</sup> day of June, 2012, I caused the foregoing document to be served on the following parties in the manner set forth below:

Dr. Eugene C. Skourtes	_____	certified mail
President & CEO	_____	first class mail
Willamette Dental of Idaho, Inc.	_____	hand delivery
6950 NE Campus Way	_____	Facsimile
Hillsboro, Oregon 97124-5611	<u>  X  </u>	e-mail
e-mail: skourtes@willametedental.com		

Wee Yuen Chin	_____	certified mail
Treasurer	_____	first class mail
Willamette Dental of Idaho, Inc.	_____	hand delivery
6950 NE Campus Way	_____	facsimile
Hillsboro, Oregon 97124-5611	<u>  X  </u>	e-mail
e-mail: ychin@willametedental.com		

Justin K. West	<u>  X  </u>	certified mail
Sr. Director of Finance	_____	first class mail
Willamette Dental of Idaho, Inc.	_____	hand delivery
6950 NE Campus Way	_____	facsimile
Hillsboro, Oregon 97124-5611	<u>  X  </u>	e-mail
e-mail: jwest@willametedental.com		

Georgia Siehl, CPA, CFE	_____	certified mail
Bureau Chief / Chief Examiner	_____	first class mail
Idaho Department of Insurance	<u>  X  </u>	hand delivery
700 W. State St., 3 <sup>rd</sup> Floor	_____	facsimile
Boise, Idaho 83720-0043	_____	
e-mail: Georgia.Siehl@doi.idaho.com	<u>  X  </u>	e-mail

  
\_\_\_\_\_  
William R. Michels, MBA, CPA, CFE  
Deputy Chief Examiner  
IDAHO DEPARTMENT OF INSURANCE

## EXHIBIT A

DEPARTMENT OF INSURANCE

STATE OF IDAHO



REPORT OF EXAMINATION

of the

WILLAMETTE DENTAL OF IDAHO, INC

(NAIC Company Code 95819)

as of

December 31, 2010

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*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

WILLIAM W. DEAL  
Director

Boise, Idaho  
April 23, 2012

The Honorable William W. Deal  
Director of Insurance  
State of Idaho  
700 West State Street  
Boise, Idaho 83720

Dear Director:

Pursuant to your instructions, in compliance with Section 41-219(1), Idaho Code, 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, 2010, of the financial condition and corporate affairs of:

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

hereinafter referred to as the "Company," at its offices in Boise, Idaho. The following Report of Examination is respectfully submitted.

## SCOPE OF EXAMINATION

This examination covered the period January 1, 2006, through December 31, 2010. The examination was conducted at the Boise, Idaho office of the Company by an examiner from the State of Idaho. The examination was conducted in accordance with Section 41-219(1), Idaho Code, the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*, the NAIC *Market Regulation Handbook*, and the NAIC *Accounting Practices and Procedures Manual*.

All accounts and activities of the Company were considered in accordance with the NAIC's risk-focused examination process. The Financial Examiners 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. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions as governed and prescribed by Idaho law.

A risk assessment review of the Company's IT systems and controls was performed by the State of Washington Office of Insurance Commissioner in connection with its 2009 examination of Willamette Dental of Washington, a subsidiary of the Company. Since both companies use the same IT system, there was some reliance placed on their report and work papers for this examination.

A letter of representation was signed by the Company attesting to its ownership of all assets and to the nonexistence of unrecorded liabilities or contingent liabilities.

In addition to the Report of Examination, a Management Letter was issued to the Company by the Department which covered items that were not included in the Report, due to the materiality threshold, items that were related to proprietary/operational issues, as well as minor accounting and/or annual statement reporting corrections.

## PRIOR EXAMINATION

The prior financial examination was conducted by the Idaho Department of Insurance covering the period January 1, 2001 through December 31, 2005.

A review was made to ascertain what action was taken by the Company with regard to comments and recommendations made by the Department in the prior examination report. Unless otherwise mentioned in the *Comments and Recommendations* section of this report, the prior report exceptions were adequately addressed by the Company.

## HISTORY AND DESCRIPTION

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 Section 41-3903(13). The Idaho Department of Insurance required the Company to maintain a



premium to surplus ratio of 7 to 1 with a minimum of \$50,000 as per Section 41-3905(2), Idaho Code. They 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 the shares of stock of these affiliates. This acquisition was deemed to be a merger for purposes of Idaho Code Section 41-715(2). The investment in these affiliates may be recorded as a statutory asset without limitation.

### CAPITAL STOCK AND PAID IN SURPLUS

The Company's Articles of Incorporation authorized the issuance of 50,000 shares of common stock with a \$1.00 par value. Each Director was a stockholder of the Company, satisfying the requirements of Section 41-2835(3), Idaho Code. The Directors each purchased a qualifying share of capital stock at book value. 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 shown in the following schedule:

<u>Year</u>	<u>Number of Shares Issued</u>	<u>Value of Common Stock</u>	<u>Surplus Paid in or Contributed</u>
1998	50,000 (1)	\$ 50,000	
1999			\$ 220,000 (2)
2003	<u>124,483</u> (3)	<u>\$124,483</u>	<u>\$2,995,593</u> (3)
Totals	<u>174,483</u>	<u>\$174,483</u>	<u>\$3,215,593</u>

- (1) Initial sale includes one share to each of the 5 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.
- (2) Dr. Eugene Skourtes contributed \$220,000 in surplus during 1999 to help cover some of the initial operating losses incurred by the Company.
- (3) Willamette Dental Insurance, Inc and Willamette Dental of Washington, Inc were acquired with a total value of \$3,120,076. 124,483 shares of stock with a par value of \$1 were issued to Dr. Skourtes for this transaction.

The total common capital stock would be \$174,483 and the paid-in or contributed surplus total would be \$3,215,593.

### SURPLUS DEBENTURES

Effective December 30, 1999, the Company began issuing Surplus Notes to Denkor Dental Management Corporation of 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 Denkor Dental Management Corporation authorized their company to lend up to \$300,000 at any one time to Columbia Dental of Idaho, Inc. The two companies also signed a Surplus Loan Agreement. This Agreement outlines the terms of the various borrowings that include:

**Term:** The agreement shall be indefinite until all indebtedness of the Company to Denkor Dental Management Corporation has been performed in full and the parties terminate the agreement in writing.

**Rate:** The loans shall bear interest at the rate of 6% per annum.

**Payment:** 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.

**Prepayment:** The Company may prepay without penalty, subject to its compliance with the terms of the surplus note with subordination and prior approval requirements of the agreement.

During the examination period, the Company issued no additional surplus notes. The Company received all the proper approvals from the Idaho Department of Insurance prior to the issuance of each of the notes and subsequent repayment of the notes.

The following is a listing of the surplus notes the Company has issued through December 31, 2010:

<u>Date</u>	<u>Principal Amount</u>	<u>Interest Amount</u>
12/30/99	\$ 175,000	6%
03/28/00	275,000	6%
06/30/00	250,000	6%
11/01/00	300,000	6%
12/11/00	200,000	6%
03/26/01	275,000	6%
06/28/01	200,000	6%
09/30/01	100,000	6%
09/30/01	300,000	6%
03/30/03	250,000	6%
08/31/03	300,000	6%
<b>Total Issued</b>	<b>\$2,625,000</b>	
06/30/05	(175,000)	Approved for repayment of 12/30/99 note by the Idaho Department of Insurance
06/08/06	(250,000)	Approved for repayment of 06/30/2000 note by the Idaho Department of Insurance
06/27/07	(275,000)	Approved for repayment of 03/28/2000 note by the Idaho Department of Insurance
05/29/08	(300,000)	Approved for repayment of 11/01/2000 note by the Idaho Department of Insurance
11/24/08	(475,000)	Approved for repayment of 12/11/2000 and 03/26/2001 notes by the Idaho Department of Insurance

04/10/09	(200,000)	Approved for repayment of 06/28/2001 note by the Idaho Department of Insurance
12/03/10	(100,000)	Approved for repayment of 09/30/2001 note by the Idaho Department of Insurance
Total Paid	(1,775,000)	
Total Remaining Notes @ 12/31/2010	850,000	

### MANAGEMENT AND CONTROL

#### Insurance Holding Company System

The Company is a member of an insurance holding company system, as defined in Section 41-3801, Idaho Code. Eugene C. Skourtes is the ultimate controlling person. The affiliates of the holding company system (and the amount of Dr. Skourtes' direct ownership) include the following:

<b>Controlled by Ownership</b>
Willamette Dental Management Corporation (85% owned corporation in Oregon)
Willamette Dental Group, P.C. (100% owned professional corporation in Oregon)
Eugene C. Skourtes, P.S. dba Columbia Dental Group (100% owned professional service corp. in Washington)
McClusky, Petruzelli, Skourtes Real Estate (33% owned partnership in Oregon)
Acorn Corporation (50% owned corporation in Oregon)
ENS Corporation (100% owned corporation in Oregon)
<b>Willamette Dental of Idaho, Inc.</b> (100% owned corporation in Idaho)

Wholly owned subsidiaries of Willamette Dental of Idaho, Inc.:

Willamette Dental Insurance, Inc. (100% owned corporation in Oregon)
Willamette Dental of Washington, Inc. (100% owned corporation in Washington)

The Company's Form B Holding Company Registration Statements for the period under examination were reviewed. The most recent filing was dated April 6, 2011 (for calendar year ending 2010), which appears to be current and valid.

The management and control of the Company is guided by a Board of Directors consisting of five persons. Idaho Code states that in no event shall the number of directors be less than five nor more than fifteen. The 2009 and 2010 Annual Statements only shows four Directors. It is recommended that the Company appoint a fifth director as required by its bylaws. During the examination, the Company appointed a fifth director.

The Annual Meeting of the shareholders shall be held on the first Monday of February. The regular meeting of the Board of Directors shall be the same day and at the same location as the Annual Meeting of the shareholders.

Special Meetings of the Board may be called by the President of the Company or upon the petition of any directors upon proper call in accordance with the Bylaws.

Directors and Officers

The following persons were serving as directors and officers at December 31, 2010:

Directors:

<u>Name</u>	<u>Business Address</u>
Eugene Skourtes	Beaverton, OR
Diane Golder	Boise, ID
Wendy Tippetts	Boise, ID
Douglas Taylor	Boise, ID

Officers:

Eugene Skourtes	President
Eugene Skourtes	Secretary
Wee Yuen Chin	Treasurer

Committees

The Bylaws authorizes the Board of Directors, by resolution, to designate two or more of its members to constitute an Executive Committee. As of December 31, 2010, the minutes do not reflect that an Executive Committee has been established.

Corporate Governance

The Company's corporate governance activity was evaluated in conjunction with examination planning. This activity is comprised of three major sub-components: organizational structure (includes assignment of authority and responsibility), assessment of the board of directors, and management assessment.

In order to better assess corporate governance, interviews were held with the following key Board and management personnel:

<u>Name</u>	<u>Title</u>
Dr. Eugene Skourtes	President and CEO
Wee Yeun Chin	Treasurer
Justin West	Director of Finance
Jerry Bell	IT Operations Manager
Rich McOmie	Underwriting Manager
Christy Shin	Senior Staff Accountant

Based on interviews of the above key management and Board members, it appears that the Company's executive management is aware of and fully understands their responsibilities and duties. Job descriptions for key executives and management positions were also reviewed. Information learned in the corporate interviews correlated to the job descriptions of those interviewed in all material respects. The aforementioned duties and responsibilities appear to have been implemented by diligent and competent executive management.

Based on a review of the Company's organizational chart, management interviews and discussions, and examination observations, it appears that the Company has a sound organizational structure in place. The structure is properly centralized, flexible and updated when needed, and facilitates the flow of information – both upstream and downstream.

At the functional level, it appears there is appropriate separation of duties. Furthermore, the organizational chart appears to be flexible and is periodically reviewed and modified, as appropriate, for changing conditions.

It also appears the Board meets the duty of care and duty of loyalty standards in fulfilling their corporate obligations. The examination concludes that the corporate governance structure in place at the Company is strong and enterprise-wide, and includes risk mitigation strategies for all key activities.

#### Conflict of Interest

As noted in the prior exam, each of the Directors completed a conflict of interest questionnaire of the Company. The only conflicts noted were for the President/Secretary and the Vice President. These conflicts reflected their position with Willamette Dental Insurance, Inc., Willamette Dental of Washington and their ownership position with Willamette Dental Management Corporation. They do not believe it would impair their independence of judgment or influence the decision or actions concerning the Company. It appeared these conflict of interest questionnaires were sufficient.

#### Contracts and Agreements

As of December 31, 2010, the Company was party to a number of agreements. The major agreements are summarized as follows:

##### (1) Business Services Agreement

This agreement between the Company and an affiliate, Willamette Dental Management Corporation (WDMC), became effective on January 1, 2004. Under the terms of this agreement, WDMC 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.

WDMC is compensated for all office expenses actually paid by WDMC for the Company plus a management fee of \$10,000 per month. These fees 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 this agreement.

The fees are to be paid by the Company on a monthly basis within 5 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.

## (2) Intercompany Tax Sharing Agreement

This agreement between the Company and its two subsidiaries, Willamette Dental of Washington, Inc. and Willamette Dental Insurance, Inc., became effective on July 1, 2003. Under the terms of this agreement, the affiliates agree 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.

## (3) Dental Provider Agreement

This agreement between the Company and an affiliate, Willamette Dental Group, P.C. (WDG), became effective on January 1, 2004. Under the terms of this agreement, WDG 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 paid WDG for dental provider services through a capitation plan based upon a flat percentage of the subscriber's (i.e. covered individuals and groups) gross premiums. The Percentage utilized (specified in the contract) during the exam period was 85%. The capitation payment shall be paid no later than the 15th of the month following the month the premium is received.

## CORPORATE RECORDS

### Articles of Incorporation and Bylaws

The original Articles of Incorporation were filed with the Idaho Secretary of State on July 22, 1998. Effective September 11, 1998, the Director of the Idaho Department of Insurance approved the Articles of Incorporation and the Company's Bylaws. Effective December 2, 2002, the Company amended its Articles of Incorporation and its Bylaws to change its name from Columbia Dental of Idaho, Inc. to Willamette Dental of Idaho, Inc. A "Joint Consent and Statement of Action Without Meetings of the Shareholders and Board of Directors of Willamette Dental of Idaho, Inc." was prepared on April 28, 2004. The consent authorized the amendment to the Articles of Incorporation to change the authorized number of shares of stock to be increased to 174,483.

### Minutes of Meetings

A review of the minutes of the meetings of the members, Board of Directors for the period under examination indicated compliance with the Articles of Incorporation and Bylaws, the annual elections of the Board of Trustees and Officers, acceptance of CPA's Annual Reports, and investment transactions. The meetings were well attended and the minutes were duly signed. The March 8, 2007 minutes showed acknowledgement of the receipt, review and acceptance of the examination report as of December 31, 2005.

### FIDELITY BOND AND OTHER INSURANCE

Insurance coverage for the protection of the Company has been maintained through the period under examination. Coverage in effect December 31, 2010 is summarized as follows:

The Company is a named insured on a Commercial Crime Policy that covers dishonest or fraudulent acts by employees up to \$250,000 with a \$250 loss deductible.

The Company also is a named insured on a Commercial General Liability that provides coverage for product-completed operations, personal and advertising injury, damage to premises rented and medical expense.

The fidelity coverage meets the suggested minimum limits recommended by the NAIC. The insurance companies providing the coverage to the Company are authorized in the State of Idaho.

The certification signed by management acknowledged that no losses had been suffered due to dishonest or fraudulent acts.

### PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company has no employees, and its affiliate, Willamette Dental Management Corporation, provides all personnel and necessary services through a management agreement. The agreement was summarized in a previous section of the report under the caption "Contracts and Agreements."

### TERRITORY AND PLAN OF OPERATION

The Company is licensed in the State of Idaho as a domestic limited managed care insurer, under Title 41, Chapter 39, Idaho Code. The business written is group dental coverage for participating groups, and individual dental coverage.

The Company currently has appointed 257 agents/agencies. A listing of active and terminated agents furnished by the Department of Insurance was reconciled to the Company files.

The Company has maintained its Home Office in Boise, Idaho, since 1999. The Company has opened several offices throughout the State of Idaho for handling patients. All insurance operations are performed at the Boise Office.

### STATUTORY AND SPECIAL DEPOSITS

As of December 31, 2010, the examination confirmed that the Company had provided the following deposits in trust for the State of Idaho, through the office of the Director of the Department of Insurance, in order to comply with Section 41-316A and Section 41-3905(7), Idaho Code.

<u>Description</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
Wells Fargo Bank CD	\$ 50,000	\$ 50,000	\$ 50,000
Wells Fargo Bank CD	<u>55,000</u>	<u>55,000</u>	<u>55,000</u>
TOTAL	\$105,000	\$105,000	\$105,000

## GROWTH OF THE COMPANY

The Company's Growth for the years indicated, as taken from its Annual Statements (or as adjusted by the examination report) is shown in the following schedule:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus</u>	<u>Net Income</u>
2005 *	6,935,654	358,937	6,576,717	125,125
2006	8,546,137	645,877	7,900,260	247,500
2007	8,506,136	169,062	8,337,074	262,104
2008	8,322,626	252,248	8,070,378	117,992
2009	8,600,363	175,239	8,425,124	71,569
2010 *	11,159,601	209,787	10,949,814	80,055

\* As determined by Examination

## LOSS EXPERIENCE

The ratios of medical and hospital expenses to total revenues, as reported in the Company's Annual Statements for the five-year period ending December 31, 2010 are reported below:

<u>Year</u>	<u>Total Revenue</u>	<u>Total Medical and Hospital Expenses</u>	<u>Ratio of Expenses to Total Revenue</u>
2006	\$5,637,936	\$4,615,744	81.9%
2007	7,050,627	5,779,850	82.0%
2008	7,481,981	6,278,475	83.9%
2009	7,410,653	6,527,118	88.1%
2010	6,772,706	5,922,893	87.5%

## REINSURANCE

As of December 31, 2010 the Company had not ceded any business to any reinsurer.

## INSURANCE PRODUCTS AND RELATED PRACTICES

### Policy Forms and Underwriting Practices

The Company offers a group dental coverage in Idaho only. A listing of policy forms and the Certificate and Summary Plan (given to each subscriber) filed with the Department of Insurance was compared to the forms provided to the examiners by the Company without exception. The Company retains 100% of each risk.

The Company's issuing procedures concerning new and renewal contracts appeared to be timely handled. The policyholder files were examined for the Company's treatment of additions and deletions to the original policy with no anomalies noted. The issuing agents' appointments were verified and the proposed premiums were examined without exception.



## Treatment of Policyholders

### Claims

A sample of the claims incurred during the year 2010 was reviewed during the course of this examination. The review indicated that the claims were being settled properly and that payments were being made in a timely manner.

### Complaints

The Company maintains a complaint register pursuant to Section 41-1330, Idaho Code, that was reviewed during the examination. Supporting documentation of complaints received by the Company indicated appropriate follow-up and resolution had been achieved. There were no complaints filed with the Idaho Department of Insurance during the period under examination.

A review of the Company's fraudulent claim procedure indicated their compliance with Section 41-290, Idaho Code.

### Advertising and Sales Material

The Company does not advertise any of its products or rate information and does not utilize radio or television in its promotion of business. The Company does provide an enrollment packet to prospective groups. The enrollment packet has been filed with the Idaho Department of Insurance.

The Company's website provides general information consumers need to know about the Company, as well as links to explanations regarding premium costs, how to file a claim, and how to find an agent. There did not appear to be any false or misleading statements.

## ACCOUNTS AND RECORDS

### General Accounting

The Company maintains an electronically posted general ledger and a number of subsidiary journals and records. Trial balances were prepared from its general ledger for the current year under examination, which were reconciled with the current annual statements.

### Independent Accountants

For the years 2006 through 2010, the Company was included with Willamette Dental Management Corporation and other affiliates that retained

Perkins and Company, P.C.  
1211 SW Fifth Avenue, Suite 1000  
Portland Oregon 97204

The auditor's reports were reported in accordance with statutory accounting principles.

The CPA's workpapers were relied upon in some instances and noted accordingly in respective workpapers.

## Actuarial Opinion

The claims liabilities were examined by Charles P. Miller, consulting actuary with Milliman & Robertson, Inc. of Seattle, Washington. The actuary, using standard actuarial procedures, then determined the appropriate liabilities and issued a statement of opinion. The opinion stated that the amounts of the liabilities:

- a. meet the requirements of the insurance laws of Idaho;
- b. are computed in accordance with commonly accepted actuarial standards consistently applied and fairly stated in accordance with sound actuarial principles; and
- c. are based on actuarial assumptions relevant to contract provisions and appropriate to purpose for which the statement was prepared.

The identified actuarial items are listed as follows:

A. Claims unpaid (Page 3, Line 1)	\$0
B. Accrued medical incentive pool and bonus payments (Page 3, Line 2)	\$0
C. Unpaid claims adjustment expenses (Page 3, Line 3)	\$0
D. Aggregate health policy reserves (Page 3, Line 4) including unearned premium reserves, premium deficiency reserves and additional policy reserves from the Underwriting and Investment Exhibit – Part 2D	\$35,653
E. Aggregate life policy reserves (Page 3, Line 5)	\$0
F. Property/casualty unearned premium reserves (Page 3, Line 6)	\$0
G. Aggregate health claims reserves (Page 3, Line 7)	\$0
H. Any other loss reserves, actuarial liabilities, or related items presented as Liabilities in the annual statement; and	
i. Not Applicable	
I. Specified actuarial items presented as assets in the annual statement.	
i. Not Applicable	

## FINANCIAL STATEMENTS

The financial section of this report contains the following statements:

- Assets as of December 31, 2010
- Liabilities, Surplus and Other Funds as of December 31, 2010
- Statement of Income, For the Year Ending December 31, 2010
- Capital and Surplus Account, For the Year Ending December 31, 2010
- Reconciliation of Capital and Surplus, December 31, 2006 through December 31, 2010

**ASSETS**  
**As of December 31, 2010**

	<u>Per Company</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
Common stocks (Note 1)	\$10,524,075	0	\$10,524,075
Cash, cash equivalents and short-term investments	486,304	0	486,384
Uncollected premiums and agents' balances in the course of collection	85,496	0	85,496
Federal income tax recoverable	57,269	0	57,269
Receivable from parent, subsidiaries and affiliates	<u>6,457</u>	<u>0</u>	<u>6,457</u>
<b>Totals</b>	<b><u>\$11,159,601</u></b>	<b><u>\$ 0</u></b>	<b><u>\$11,159,601</u></b>

**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**As of December 31, 2010**

	<u>Per Company</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
Aggregate health policy reserves	\$ 35,653	\$ 0	\$ 35,653
Premiums received in advance	104,488	0	104,488
General expenses due or accrued	23,335	0	23,335
Payable to parent, subsidiaries and affiliates	<u>46,311</u>	<u>0</u>	<u>46,311</u>
<b>Total liabilities</b>	<b><u>\$ 209,787</u></b>	<b><u>\$</u></b>	<b><u>\$ 209,787</u></b>
Common capital stock	\$ 174,483	\$ 0	\$ 174,483
Gross paid in and contributed surplus	3,215,593	0	3,215,593
Surplus notes	850,000	0	850,000
Unassigned funds (surplus)	<u>6,709,738</u>	<u>0</u>	<u>6,709,738</u>
Surplus as regards policyholders	<u>\$10,949,814</u>	<u>\$ 0</u>	<u>\$10,949,814</u>
<b>Totals</b>	<b><u>\$11,159,601</u></b>	<b><u>\$ 0</u></b>	<b><u>\$11,159,601</u></b>

STATEMENT OF INCOME  
For the Year Ending December 31, 2010

	<u>Per Company</u>	<u>Exam Adjustment</u>	<u>Per Examination</u>
Net premium income	\$6,772,706	\$ 0	\$6,772,706
Change in unearned premium reserve	0	0	0
Fee-For-Service	0	0	0
Risk revenue	0	0	0
Aggregate write-in for other health revenue	0	0	0
Aggregate write-in for non-health revenues	0	0	0
Total Revenue	<u>\$6,772,706</u>	<u>0</u>	<u>\$6,772,706</u>
Hospital and Medical:			
Hospital/medical benefits	0	0	0
Other professional services	5,922,893	0	5,922,893
Outside Referrals	0	0	0
Emergency room and out-of-area	0	0	0
Prescription drugs	0	0	0
Aggregate write-in for other hosp/medical	0	0	0
Incentive pool, withhold adj-bonus amounts	0	0	0
Subtotal	<u>5,922,893</u>	<u>0</u>	<u>5,922,893</u>
Less:			
Net reinsurance recoveries	0	0	0
Total Hospital and medical	<u>5,922,893</u>	<u>0</u>	<u>5,922,893</u>
Non health claims (net)	0	0	0
Claims adjustment expenses	0	0	0
General administrative expense	691,148	0	691,148
Increase in reserves for life/A&H contracts	0	0	0
Total underwriting deductions	<u>6,614,041</u>	<u>0</u>	<u>6,614,041</u>
Net underwriting gain or (loss)	<u>158,665</u>	<u>0</u>	<u>158,665</u>
Net investment income	139	0	139
Net realized capital gains	0	0	0
Net Investment gains (losses)	139	0	139
Net gain or (loss) agts' or prem balances	0	0	0
Aggregate write-in other income or expense	(55,283)	0	(55,283)
Net income or (loss after capital gains and before all other federal income taxes	<u>103,521</u>	<u>0</u>	<u>103,521</u>
Federal and foreign income taxes incurred	<u>23,466</u>	<u>0</u>	<u>23,466</u>
Net Income (Loss)	<u>\$ 80,055</u>	<u>\$0</u>	<u>\$ 80,055</u>

**CAPITAL AND SURPLUS ACCOUNT**  
**For the Year Ending December 31, 2010**

	<u>Per</u> <u>Company</u>	<u>Examination</u> <u>Changes</u>	<u>Per</u> <u>Examination</u>
Surplus as regards policyholders, December 31, 2009	8,425,124	\$ 0	\$ 8,425,124
<b><u>GAINS AND (LOSSES) IN SURPLUS</u></b>			
Net income	\$ 80,055	\$ 0	\$ 80,055
Change in unrealized gains or (losses)	2,539,015	0	2,539,015
Change in net deferred income tax	0	0	0
Change in nonadmitted assets	5,620	0	5,620
Change in surplus notes	(100,000)	0	(100,000)
Rounding	<u>0</u>	<u>0</u>	<u>0</u>
Change in surplus as regards policyholders for the year	\$2,524,690	\$ 0	\$ 2,524,690
Surplus as regards policyholders, December 31, 2010	<u>\$10,949,814</u>	<u>\$ 0</u>	<u>\$10,949,814</u>

**RECONCILIATION OF CAPITAL AND SURPLUS ACCOUNT**  
**December 31, 2006 through December 31, 2010**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Capital and Surplus, Beginning of Year	\$6,576,717	\$7,900,260	\$8,337,074	\$8,070,378	\$8,425,124
Net income	247,500	262,104	117,992	71,569	80,055
Change in unrealized gains or (losses)	1,290,853	429,748	379,131	477,395	2,539,015
Change in net deferred income tax	79,914	0	0	0	0
Change in nonadmitted assets	(38,723)	19,961	11,181	5,782	5,620
Change in surplus notes	(250,000)	(275,000)	(775,000)	(200,000)	(100,000)
Rounding	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Capital and Surplus	1,323,543	436,814	(266,696)	354,746	2,524,690
Capital and Surplus, End Of Year	<u>\$7,900,260</u>	<u>\$8,337,074</u>	<u>\$8,070,378</u>	<u>\$8,425,124</u>	<u>\$10,949,814</u>

## NOTES TO THE FINANCIAL STATEMENTS

Note (1) – Common Stock \$10,524,075

This Common Stock consists of the values carried for the two subsidiaries of the Company, Willamette Dental Insurance, Inc. (Oregon) and Willamette Dental of Washington. The surplus reported on the 2010 annual statements of these two subsidiaries are:

Willamette Dental Insurance, Inc.	\$ 3,905,718
Willamette Dental of Washington	<u>6,618,357</u>
TOTAL	\$10,524,075

## SUMMARY, COMMENTS AND RECOMMENDATIONS

### Summary

The results of this examination disclosed that as of December 31, 2010 the Company had admitted assets of \$11,159,601, liabilities of \$209,787, and capital and surplus of \$10,949,814. This amount meets minimum requirements as determined by the Idaho Department of Insurance.

### Comments and Recommendations

#### Page

- 5 It is recommended that the Company appoint a fifth director as required by its bylaws. During the examination, the Company appointed a fifth director.

CONCLUSION

The undersigned acknowledges the assistance and cooperation of the Company's officers and employees in conducting the examination.

In addition, the Idaho Department of Insurance appreciated and acknowledges the assistance provided by the State of Washington Office of Insurance Commissioner.

Respectfully submitted,



David Emery, CFE, FLMI  
Senior Insurance Examiner  
State of Idaho  
Department of Insurance



AFFIDAVIT OF EXAMINER

State of Idaho  
County of Ada

David W. Emery, being duly sworn, deposes and says that he is a duly appointed Examiner for the Department of Insurance of the State of Idaho, that he has made an examination of the affairs and financial condition of the Willamette Dental of Idaho, Inc. for the period from January 1, 2006 through December 31, 2010, including subsequent events, that the information contained in the report consisting of the foregoing pages is true and correct to the best of his knowledge and belief, and that any conclusions and recommendations contained in the report are based on the facts disclosed in the examination.

*David W. Emery*

David W. Emery, CFE, FLMI  
Examiner-in-Charge  
Department of Insurance  
State of Idaho

Subscribed and sworn to before me the 23<sup>RD</sup> day of APRIL, 2012 at Boise, Idaho



*[Signature]*  
Notary Public

My commission Expires: 30 Oct 2013

## EXHIBIT B

*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

WILLIAM W. DEAL  
Director

**WAIVER**

In the matter of the Report of Examination as of December 31, 2010, of the:

**WILLAMETTE DENTAL OF IDAHO, INC.  
8950 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 23<sup>rd</sup> day of April 2012, 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 27<sup>th</sup> day of April, 2012

WILLAMETTE DENTAL OF IDAHO, INC.

Justin West

Name (print)



Name (signature)

Senior Director of Finance

Title