

STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FINANCIAL EXAMINATION

OF

**WILLAMETTE HEALTH SERVICE, INC.  
BEAVERTON, OREGON**

**NAIC COMPANY CODE 47069**

AS OF

SEPTEMBER 30, 1998

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January 25, 1999

Honorable Michael Greenfield, Director  
Department of Consumer and Business Services  
State of Oregon  
350 Winter Street NE, Room 440-4  
Salem, Oregon 97310

Dear Director:

In accordance with your instructions and pursuant to ORS 731.300, we have examined the business affairs and financial condition of

**Willamette Health Service, Inc.  
14025 SW Farmington Road, Suite 300  
Beaverton, Oregon 97005**

**NAIC Company Code 47069**

hereinafter referred to as the "Company" or "WHSI." The following report is respectfully submitted.

## **SCOPE OF EXAMINATION**

Originally, the Company was scheduled for an examination as of December 31, 1996, covering the three year period then ended. However, due to deficiencies in the internal controls and various violations of the Oregon Insurance Code, the examination was extended to September 30, 1998 (see Accounts & Records section for more detail). The examination includes subsequent events that are considered material to the financial condition and compliance with the Oregon Insurance Code.

The examination was conducted pursuant to ORS 731.300 and in accordance with procedures and guidelines prescribed by the National Association of Insurance Commissioners (NAIC) for the purpose of determining the Company's financial condition, ability to fulfill its obligations, the nature of its operations, and compliance with the Insurance Code. Accounting methods, internal control procedures, records, and other supporting evidence were examined or tested by appropriate methods to the extent deemed necessary and appropriate for the type, volume, and complexity of the accounting system and operations utilized by the Company.

A management affirmation, attesting to the Company's compliance with Oregon laws relating to the location of accounts and records, conduct of the Company's affairs in a nonhazardous manner and exercise of managerial control by a duly qualified and constituted Board of Directors, was signed by, and received from, the Chairman of the Board of the Company.

## **COMPANY HISTORY**

The Company was incorporated as Willamette Health Service, Incorporated, a nonprofit corporation, on March 12, 1982. The Articles of Incorporation were amended April 12, 1982, to change the name of the Company to Willamette Health Service, Inc. A Certificate of Authority was issued May 5, 1983, by the Oregon Insurance Division, granting the Company authority to transact dental and vision insurance in Oregon.

## **CAPITALIZATION**

Dr. Gerald L. Cogan and Dr. Eugene C. Skourtes contributed \$25,000 in April 1983 as initial capitalization. In June 1983, an additional surplus of \$5,000 was donated by Dr. Cogan and Dr. Skourtes.

During the course of this examination the Company has experienced rapid growth as depicted in the following table:

<b><u>Year</u></b>	<b><u>Admitted Assets</u></b>	<b><u>Premiums Written</u></b>	<b><u>Net Income</u></b>	<b><u>Surplus</u></b>
1993*	\$189,174	\$ 193,529	\$45,787	\$131,208
1998**	\$527,025	\$2,995,106	\$40,624	\$373,059

\*Per examination

\*\*Per examination (as September 30, 1998)

Based on growth projections, and in order to maintain an adequate premium to surplus ratio in the future, the Insurance Division has required an additional surplus contribution of \$180,000. This cash contribution was made by Willamette Dental Group on behalf of the single shareholder, Dr. Eugene C. Skourtes, on November 24, 1998.

## **MANAGEMENT AND CONTROL**

### **Board of Directors**

The Bylaws vest management and control of the Company in a Board of Directors composed of three members. At least one-third of the members of the Board of Directors are representatives of the public pursuant to the provisions of ORS 750.015(1). Directors serving as of September 30, 1998, were as follows:

#### **Name and Address**

#### **Affiliation**

Eugene C. Skourtes, DMD\*  
14025 SW Farmington Road  
Beaverton, OR 97005

General Dentistry  
Owner – Willamette Dental Group

Norman Wapnick  
7032 SW Brier Place  
Portland, OR 97219

Member at Large

Stephen J. Petruzelli  
14025 SW Farmington Road  
Beaverton, OR 97005

Chief Executive - Corporate Operations  
and Development  
Willamette Dental Group

\*Chairman of the Board

### **Officers**

Officers elected and serving at September 30, 1998, were as follows:

#### **Name**

#### **Title**

Eugene C. Skourtes  
Wee Yuen Chin

President and Secretary  
Treasurer

## **Intercompany Agreements**

### **Management Agreement**

The Company has no employees. All services, including administrative, management, and marketing, are performed by Denkor Dental Management Corporation (DDMC).

The Company reimburses DDMC for operations costs incurred by DDMC on behalf of the Company. Additionally, DDMC charges the Company a monthly fee to cover the portion of salaries and office space utilized by the Company. As of the date of this examination, the Company did not have a formal management agreement with DDMC that sets forth the fee to be paid DDMC for the services provided to the Company. No recommendation will be made as the Company, subsequent to date of this examination and prior to the end of field work, has initiated a management agreement with DDMC. Under the terms of this agreement, in exchange for services provided, the Company will reimburse DDMC a monthly fee of \$4,000 a month and \$100 per hour fee for quarterly and annual administrative services.

### **Contracting Dental Office Agreement**

A provider agreement between the Company and contracting dental offices did not include a proper hold harmless clause as defined by ORS 750.095. No recommendation will be made as the Company, during the course of this examination, amended its contracting dental office agreement to include a proper hold harmless clause.

## **HOLDING COMPANY REGISTRATION**

The Company is a member of a holding company system as defined in ORS 732.548. The Company is under common control with the corporations listed below. The ultimate controlling person of the holding company is Eugene C. Skourtes. Dr.

Skourtes is sole shareholder of the following corporations except Denkor Dental

Management Corporation:

Denkor Dental Management Corporation, an Oregon S Corporation  
Willamette Dental Group, P.C., an Oregon S Corporation  
Oregon Dental Specialists, P.C., an Oregon S Corporation  
Oregon Dental Laboratory, Inc., an Oregon S Corporation  
Dental Registry, Inc., an Oregon S Corporation  
Willamette Dental Insurance, Inc. an Oregon C Corporation  
Eugene C. Skourtes, Inc., P.S. dba Columbia Dental Group,  
a Washington S Corporation  
Columbia Dental of Washington, Inc. a Washington C Corporation  
Columbia Dental of Idaho, Inc. an Idaho C Corporation

The Company, as a member of an insurance holding company system, has made timely holding company registration filings in accordance with ORS 732.551 and OAR 836-27-020(1).

**MANAGEMENT AFFIRMATION**

## **CONFLICT OF INTEREST**

The Company has a conflict of interest policy that requires key employees, officers and directors to report conflicts of interest to the Company. From a review of the conflict of interest questionnaires, it appeared that the affected personnel performed due diligence in disclosing all and any potential conflicts of interest.

## **CORPORATE RECORDS**

### **Board Minutes**

Minutes of the Board of Directors meetings were reviewed for the period under examination. Although the meetings were held in accordance with the Company's Bylaws and a quorum was achieved at all meetings, the minutes did not always support the transactions of the Company and the actions taken by its officers. As an example, the Board did not specifically approve all investment transactions made during the course of this examination as required by ORS 733.730(1). **I recommend the Board of Directors authorize and approve investments in order to comply with ORS 733.730(1). In addition, I recommend future Board minutes be written to reflect the transactions of the Company and actions taken by its officers.**

### **Articles of Incorporation and Bylaws**

No amendments were made to the Articles of Incorporation or Bylaws during the period covered by this examination.

It appears that the Articles of Incorporation and Bylaws are in conformity with Oregon statutes.

## **REINSURANCE AND GUARANTEE AGREEMENTS**

### **Ceded Reinsurance**

Currently, the Company does not have any ceded reinsurance contract in effect.

### **Assumed Reinsurance and Guaranty Agreements**

On May 9, 1996, WHSI entered into a reinsurance agreement and guaranty agreement with its affiliate, Columbia Dental of Washington (CDW). These agreements were required by Washington Insurance Code RCW 48.44.035.

This code requires that the uncovered expenditures of limited health care service contractors that have had a certificate of registration for less than three years be insured or guaranteed by a foreign or domestic carrier admitted in the state of Washington or by another carrier acceptable to the Washington Insurance Commissioner.

The agreement requires WHSI to guarantee the payment of all uncovered expenditures of CDW. Such an arrangement amounts to asset hypothecation which is contrary to the provisions of ORS 733.010. During the course of this examination, the Insurance Division required the Company to cancel this agreement. As of the date of this report, all assets were determined to be unencumbered.

The reinsurance agreement requires Columbia Dental Group (CDG) to reimburse WHSI all expenditures it has made on behalf of CDW in excess of \$1,000 per calendar year. During an in-depth review of this agreement, it was noted that the agreement does not provide for a true transfer of risk and therefore, does not meet the definition of a reinsurance agreement. During the course of this examination, the Insurance Division required the Company to cancel this agreement. In order to meet the requirements of RCW 48.44.035, CDW has secured a surety bond to guarantee uncovered expenditures.

## **FIDELITY BONDS AND OTHER INSURANCE**

The Company is insured under policies that provide fidelity bond and workers' compensation coverage to Willamette Dental Group (WDG). The fidelity bond coverage has a limit of \$100,000 per occurrence and meets the minimum limits prescribed by the National Association of Insurance Commissioners as of September 30, 1998. However, due to the anticipated growth in business the Company's fidelity coverage may not meet the minimum requirements in the future. During the period covered by this examination, the Company did not have directors' and officers' coverage. Subsequent to the date of this examination and prior to the end of field work, fidelity coverage was increased to \$200,000 and the Company procured directors' and officers' coverage. The Company is the named insured on policies in force as of September 30, 1998, covering the following:

Commercial general liability	Automobile liability
Property – contents	Professional liability

Coverages were found to be adequate in relation to the risks involved.

## **TERRITORY AND PLAN OF OPERATION**

The Company is authorized to transact dental and vision insurance throughout the State of Oregon. During the period under examination, the Company marketed dental plans to groups and individuals. The Company has contracted with Willamette Dental Group to provide dental services to WHSI members.

Until 1997, the majority of the Company's business consisted of policies which provided 25% discount to subscribers on other services performed by the contract dental office of WDG. As a result, the Company had little or no insurance risk on the policies written.

Subsequent to 1996, the Company started writing indemnity business which resulted in a substantial increase in written premiums.

### **GROWTH OF THE COMPANY**

The following exhibit reflects the annual growth of the Company since 1993. Stated amounts were compiled from the Company's filed annual statements and, where indicated, from current and previous examination reports.

<b><u>Year</u></b>	<b><u>Admitted Assets</u></b>	<b><u>Liabilities</u></b>	<b><u>Net Income</u></b>	<b><u>Surplus</u></b>
1993*	\$189,174	\$ 57,966	\$45,787	\$131,208
1994	230,593	57,122	34,359	173,471
1995	309,839	67,641	64,297	242,198
1996	436,838	132,913	60,484	303,919
1997	408,888	76,453	27,256	332,435
1998**	\$527,025	\$153,966	\$40,624	\$373,059

\*Per examination

\*\*Per examination (September 30, 1998)

As noted in the loss experience section of this report, the Company's earned premiums increased substantially since 1996, however, it maintained a steady growth for admitted assets and surplus. This is a direct result of the capitation agreement the Company has with the Willamette Dental Group. Under the terms of this agreement, the Company is obligated to remit 89% of the premiums it collected to WDG. In addition to this agreement, the Company reimbursed approximately 10% of its premiums to Denkor Dental Management Corporation for administrative services. This resulted in an aggregate expense ratio of approximately 99%. This concern was brought to the Company's attention and before completion of field work, the Company adopted a new intercompany agreement which will result in a lower aggregate expense ratio.

## **LOSS EXPERIENCE**

The following exhibit reflects the annual underwriting results of the Company since the last examination. The amounts were compiled from copies of the Company's filed annual statements.

<b><u>Year</u></b>	<b><u>Premium Earned</u></b>	<b><u>Loss &amp; Loss Adjustment Expense</u></b>	<b><u>Ratio</u></b>
1993*	\$ 190,163	\$ 176,190	92.65%
1994	224,962	187,044	83.14
1995	260,341	196,956	75.65
1996	506,551	334,226	65.98
1997	2,166,531	2,008,164	92.69***
1998**	\$2,892,223+	\$2,574,395	89.00%

\*Per examination

\*\*Per examination (September 30, 1998)

\*\*\*1997 earned premiums, losses and loss adjustment expenses did not include Dental Plus business. All activities related to this business were reclassified to "aggregate write-ins for other income and expenses" in the "underwriting and investment exhibit" of the annual statement.

The loss ratio of 92.69% included capitation payments of 89% related to the contracting dental agreement and 3.69% for other expenses which were incorrectly reported as losses. No examination adjustment was made for other expenses as this item related to the prior year.

+All activities related to Dental Plus business were incorrectly included in the earned premiums and losses incurred on the September 30, 1998, quarterly statement. As a result, a reclassification in the amount of \$126,998 has been made to "aggregate write-ins for other income and expenses" in the "underwriting and investment exhibit" of the quarterly statement. (See Note 4 for more detail.)

A substantial increase in premium earned and losses incurred resulted from the Company's decision to write the indemnity business in 1997.

## **ACCOUNTS AND RECORDS**

In general, the Company's records and source documentation supported the amounts presented in the Company's September 30, 1998, quarterly statement and were maintained in a manner by which the financial condition was readily verifiable as

required by ORS 733.170. However, attention is directed to the following issues as a result of this examination.

**Common Stock**

The Company's investment in common stock mutual funds were reported with a December 31, 1997, market rate and resulted in an overstated amount of \$8,372. **I recommend the Company report all common stocks using the proper NAIC SVO market rate. This recommendation is made pursuant to the provisions of ORS 731.302 and the NAIC Examiners Handbook (page 2G-11).** No adjustments will be made to the financial statements as the amount is immaterial in relation to the surplus of the Company.

**Unclaimed Funds**

The Company has a system to report or remit unclaimed funds to the Oregon Division of State Lands as required by ORS 98.352. However, the Company is reporting stale dated checks as a part of cash instead of a separate liability item. **I recommend the Company report all stale dated checks as a financial statement liability as aggregate write-ins for other liabilities. This recommendation is made pursuant to the provisions of ORS 733.030(1) & (5) and NAIC Annual Statement Instructions for Hospital, Medical, and Dental Service Companies.** No reclassification will be made as the amount is immaterial.

**Other Expenses Due or Accrued**

Other expenses due and accrued were under estimated by \$4,157. The Company did not properly accrue for some trade payables which were applicable to expenditures prior to September 30, 1998. **I recommend the Company properly accrue for these liabilities. This recommendation is made pursuant to the provisions of**

**ORS 733.030(5).** No adjustment will be made to the financial statements as the amount is immaterial in relation to the Company' surplus.

**Aggregate Write-ins for Other Liabilities**

Aggregate write-ins for other liabilities were netted with amounts receivable from affiliates. **I recommend WHSI report these items separately. This recommendation is made pursuant to the provisions of ORS 731.574 and NAIC Annual Statement Instructions.**

**Documentation**

During the examination, it was noted that dental administrative fees of \$312,026 paid to Denkor Dental Management Corporation and Board of Director fees of \$1,000 were not supported by signed vouchers or related documents as required by ORS 732.302(1) & (2). **I recommend the Company, in the future, provide proper documentation on all expenditures of \$100 or greater and hereafter comply with provisions of the above code section.**

**COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS**

The Company complied with the all the comments and recommendations from the 1993 report of examination.

**WILLAMETTE HEALTH SERVICE, INC.**  
**STATEMENT OF ASSETS, LIABILITIES, RESERVES, AND OTHER FUNDS**  
**As of September 30, 1998**

<u><b>ASSETS</b></u>	<u><b>Statement Sept. 30, 1998</b></u>	<u><b>Adjustment</b></u>	<u><b>Examination</b></u>
Common stocks	\$ 59,280		\$ 59,280
Cash & short-term investments	351,589		351,589
Uncollected premiums	93,472		93,472
Federal income tax	22,619		22,619
Interest income due & accrued	65		65
Receivable from parent, Subsidiary, affiliate <b>(Note 2)</b>	<u>0</u>	<u>69,197</u>	<u>69,197</u>
<b>TOTAL ASSETS</b>	<u><b>\$527,025</b></u>	<u><b>\$69,197</b></u>	<u><b>\$596,222</b></u>
 <u><b>LIABILITIES</b></u>			
Claims unpaid <b>(Note 1)</b>	0	0	0
Unearned premiums	\$127,905		\$127,905
Other expenses due & accrued	5,391		5,391
Aggregate write-ins other liabilities <b>(Note 3)</b>	<u>20,670</u>	<u>69,197</u>	<u>89,867</u>
<b>TOTAL LIABILITIES</b>	<u><b>\$153,966</b></u>	<u><b>\$69,197</b></u>	<u><b>\$223,163</b></u>
 <u><b>RESERVES AND OTHER FUNDS</b></u>			
Statutory reserve	\$ 30,000		\$ 30,000
Unassigned funds	<u>343,059</u>		<u>343,059</u>
Total reserves & unassigned funds	<u>373,059</u>	<u>0</u>	<u>373,059</u>
<b>TOTAL</b>	<u><b>\$527,025</b></u>	<u><b>\$69,197</b></u>	<u><b>\$596,222</b></u>

**THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE  
FINANCIAL STATEMENTS**

**WILLAMETTE HEALTH SERVICE, INC.  
 UNDERWRITING AND INVESTMENT EXHIBIT  
 For the Period Ended September 30, 1998**

**UNDERWRITING INCOME**

Premiums earned (Note 4)	\$2,892,223
Claims incurred	2,574,395
Expenses incurred:	
Administrative	287,677
Soliciting	<u>51,118</u>
Total underwriting deductions	<u>2,913,190</u>
Net underwriting gain or (loss)	\$ (20,967)
Investment income	7,821

**OTHER INCOME OR EXPENSE**

Aggregate income or other income or expense	<u>61,070</u>
Net gain or (loss) before Federal income taxes	47,924
Federal income tax	<u>7,300</u>
Net gain or (loss)	40,624
Reserves and unassigned funds December 31, 1997	\$ 332,435
Net gain or (loss)	<u>40,624</u>
Change in reserves and unassigned funds	<u>40,624</u>
Reserves and unassigned funds as of September 31, 1998	<u>\$ 373,059</u>

**THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE  
 FINANCIAL STATEMENTS**

## **NOTES TO FINANCIAL STATEMENTS**

### **Note 1 - Claims Unpaid**

A liability for loss reserves is not required due to the provisions of the contracting dental agreement with WDG.

### **Note 2 - Receivable From Parent, Subsidiary, Affiliate**

Per Company	\$ 0
Per examination	<u>69,197</u>
Difference	<u>\$69,197</u>

The difference is the result of a reclassification from aggregate write-ins for other liabilities. (See Note 3)

### **Note 3 - Aggregate Write-ins For Other Liabilities**

Per Company	\$ 20,670
Per examination	<u>89,867</u>
Difference	<u>\$ 69,197</u>

The Company netted an amount receivable from an affiliate with that of amounts due from affiliates and recorded them as an aggregate write-ins for other liabilities. A reclassification is being made to amounts receivable from parent, subsidiary and affiliate. (See Note 2)

### **Note 4 - Earned Premiums**

Per Company	\$3,019,221
Per examination	<u>2,892,223</u>
Difference	<u>\$ 126,998</u>

Earned premiums have been reduced by \$126,998 as reflected in the quarterly statement as of September 30, 1998. The Company had included Dental Plus business which should be reported as other income. WHSI incurred expenses of \$65,928 to generate \$126,998 of Dental Plus business. The expenses and income have been netted in the underwriting and investment exhibit as other income and expense.

## **CONCLUSION**

During the period covered by this examination, the reserves and unassigned funds of the Company have increased from \$131,208 as presented in the December 31, 1993, report of examination, to \$373,059 as shown in this report of examination.

The comparative assets, liabilities, reserves and unassigned funds are shown below:

	<b><u>September 1998</u></b>	<b><u>December 1993</u></b>	<b><u>Change</u></b>
Assets	\$596,222	\$189,174	\$408,048
Liabilities	<u>223,163</u>	<u>49,824</u>	<u>173,339</u>
Surplus	<u>\$373,059</u>	<u>\$139,350</u>	<u>\$233,709</u>

## **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

In addition to any changes made in the surplus of the Company, the following comments or recommendations are made as a result of this examination.

### Page

- 11 I recommend the Board of Directors authorize and approve investments in order to comply with ORS 733.730(1). In addition, I recommend future Board minutes be written to reflect the transactions of the Company and actions taken by its officers.
- 16 I recommend the Company report all common stocks using the NAIC SVO market rate. This recommendation is made pursuant to the provisions of ORS 731.302 and the NAIC Examiners Handbook (page 2G-11).
- 16 I recommend the Company report all stale dated checks as a financial statement liability as aggregate write-ins for other liabilities. This recommendation is made pursuant to the provisions of ORS 733.030(1) & (5) and NAIC Annual Statement Instructions for Hospital, Medical, and Dental Service Companies.
- 16 I recommend the Company properly accrue for liabilities. This recommendation is made pursuant to the provisions of ORS 733.030(5).
- 17 I recommend WHSI record receivables and payables to affiliates separately. This recommendation is made pursuant to the provisions of ORS 731.302 and NAIC Annual Statement Instructions.

- 17 I recommend the Company, in the future, furnish proper documentation for any expenditure in excess of \$100. This recommendation is made pursuant to the provisions of ORS 732.320(1) & (2).

### **SUBSEQUENT EVENTS**

Based on growth projections, and in order to maintain an adequate premium to surplus ratio in the future, the Insurance Division has required an additional surplus contribution of \$180,000. This cash contribution was made by Willamette Dental Group on behalf of the single shareholder, Dr. Eugene C. Skourtes, on November 24, 1998.

## **ACKNOWLEDGMENT**

The examiners wish to express their appreciation for the cooperation extended by the employees of the Company during the course of this examination.

In addition to the undersigned, David L. Daulton, CFE, examiner for the State of Oregon, Department of Consumer and Business Services, Insurance Division, participated in the examination.

Respectfully submitted,

---

Timothy R. Hurley, CFE  
Supervising Insurance Examiner  
Insurance Division  
Department of Consumer and Business Services  
State of Oregon

**AFFIDAVIT**

STATE OF OREGON            )  
                                          )  ss  
County of Marion            )

Timothy Hurley, being duly sworn, deposes and says that the foregoing report of examination as of September 30, 1998, of Willamette Health Service, Inc., Beaverton, Oregon, subscribed by him is true to the best of his knowledge and belief.

\_\_\_\_\_  
Timothy R. Hurley, CFE  
Supervising Insurance Examiner  
Insurance Division  
Department of Consumer and Business Services  
State of Oregon

Subscribed and sworn before me this \_\_\_\_\_ day of \_\_\_\_\_, 1999.

\_\_\_\_\_  
Notary Public in and for the State of Oregon