



STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FINANCIAL EXAMINATION

OF

**WILLAMETTE DENTAL INSURANCE, INC.  
BEAVERTON, OREGON**

**NAIC COMPANY CODE 52555**

AS OF

December 31, 2004

## TABLE OF CONTENTS

<b>SCOPE OF EXAMINATION</b> .....	<b>4</b>
<b>HISTORY AND CAPITALIZATION</b> .....	<b>4</b>
<b>MANAGEMENT AND CONTROL</b> .....	<b>5</b>
<i>Board of Directors</i> .....	5
<i>Officers</i> .....	6
<i>Parent and Affiliated Companies</i> .....	6
<b>INTERCOMPANY AGREEMENTS</b> .....	<b>7</b>
<i>Business Services Agreement</i> .....	7
<b>CONFLICT OF INTEREST</b> .....	<b>7</b>
<b>CORPORATE RECORDS</b> .....	<b>8</b>
<i>Board of Director Minutes</i> .....	8
<i>Articles of Incorporation</i> .....	8
<i>Bylaws</i> .....	8
<i>Insurance Holding Company Registration Statement</i> .....	8
<b>FIDELITY BONDS AND OTHER INSURANCE</b> .....	<b>9</b>
<b>EMPLOYEE BENEFITS</b> .....	<b>10</b>
<i>Nonqualified Excess Employee Benefit Plan</i> .....	10
<i>401(k) Plan</i> .....	10
<b>TERRITORY AND PLAN OF OPERATION</b> .....	<b>11</b>
<b>GROWTH OF THE COMPANY</b> .....	<b>11</b>
<b>LOSS EXPERIENCE</b> .....	<b>11</b>
<b>REINSURANCE</b> .....	<b>12</b>
<b>ACCOUNTS AND RECORDS</b> .....	<b>12</b>
<i>Notes to the Financial Statement</i> .....	12
<b>BALANCE SHEET</b> .....	<b>14</b>
<b>INCOME STATEMENT</b> .....	<b>15</b>
<b>NOTES TO THE FINANCIAL STATEMENT</b> .....	<b>16</b>
<i>Note 1 – Common Stock</i> .....	16
<i>Note 2 – Net Deferred Tax Asset</i> .....	16
<i>Note 3 – Receivable from (Payable to) Parent, Subsidiaries and Affiliates</i> .....	16
<i>Note 4 - Claims Unpaid and Unpaid Claims Adjustment Expenses</i> .....	17
<i>Note 5 – Current Federal and Foreign Income Tax Payable and Interest Thereon</i> .....	17
<b>SUMMARY OF COMMENTS AND RECOMMENDATIONS</b> .....	<b>17</b>
<b>CONCLUSION</b> .....	<b>18</b>
<b>SUBSEQUENT EVENTS</b> .....	<b>18</b>
<b>ACKNOWLEDGMENT</b> .....	<b>19</b>
<b>AFFIDAVIT</b> .....	<b>20</b>

July 29, 2005

Alfred W. Gross, Commissioner  
Chairman, NAIC Financial Condition (E) Committee  
State Corporation Commission  
Bureau of Insurance  
Commonwealth of Virginia  
PO Box 1157  
Richmond, Virginia 23218

Honorable Cory Streisinger, Director  
Department of Consumer and Business Services  
State of Oregon  
350 Winter Street NE, Room 440  
Salem, OR 97301-3883

Dear Director:

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

**WILLAMETTE DENTAL INSURANCE, INC.  
14025 SW Farmington Road, Suite 300  
Beaverton, Oregon 97005**

**NAIC Company Code 52555**

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

## **SCOPE OF EXAMINATION**

This financial examination of the Company was conducted as of December 31, 2004, covering the three-year period then ended, and included a review of material transactions or events that occurred subsequent to the examination cut-off date and were noted during the examination. 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 and ability to fulfill its obligations, the manner of fulfillment of its obligations, the nature of its operations, and compliance with the Oregon 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 review was also made of the corrective actions made by the Company with respect to comments and/or recommendations made in the previous financial report made as of December 31, 2001, published by the Oregon Insurance Division.

In addition to the above, work papers were reviewed that were prepared by Perkins & Company PC, the Company's independent auditors, during its audit of the Company's accounts for the year ended December 31, 2004. Portions of the auditors' work papers have been incorporated into our work papers and have been utilized in the scope and areas of emphasis in conducting the examination.

## **HISTORY AND CAPITALIZATION**

The Company was incorporated as Columbia Health Service of Oregon, Inc., on October 26, 1994, and subsequently renamed to Willamette Dental Insurance, Inc., on November 19, 1997. Effective December 31, 1999, the Company merged with its affiliate, Willamette

Health Service, Inc. (WHSI), a nonprofit corporation. As a result, the Company acquired all assets and assumed all of WHSI's liabilities and obligations (including the obligations under WHSI's insurance policies in force).

On February 24, 2003, the Oregon Insurance Division approved a reorganization, whereby ownership of the company was transferred to Willamette Dental of Idaho, Inc. Dr. Eugene Skourtes remains the ultimate controlling person through his ownership of 100% of the direct parent, Willamette Dental of Idaho, Inc.

The Company's Articles of Incorporation authorize 1,000 shares of non-par voting common stock. At December 31, 2004, the company had 100 shares issued and outstanding, with a stated value of \$1,000.

## **MANAGEMENT AND CONTROL**

### **Board of Directors**

The Bylaws vest the management and control of the Company in a Board of Directors, consisting of three members. The Board of Directors meets all the provisions of ORS 750.015. A majority of directors constitutes a quorum.

Members of the Board of Directors, duly appointed and serving as of December 31, 2004, are as follows:

<b><u>Name and Address</u></b>	<b><u>Affiliation</u></b>	<b><u>Represent</u></b>
Eugene Constantine Skourtes, DMD* 14025 SW Farmington Road Beaverton, OR	General Dentistry Owner – Willamette Dental Group	Non Public
Norman Wapnick 14025 SW Farmington Road Beaverton, OR	Attorney – Member at Large	Public
Stephen John Petruzelli 14025 SW Farmington Road Beaverton, OR *Chairman of the Board	Chief Executive Officer Willamette Dental Management Corp.	Non Public

### Officers

The principal officers of the Company, as of December 31, 2004, are as follows:

<u>Name</u>	<u>Title</u>
Eugene C. Skourtes	President and Secretary
Stephen J. Petruzelli	Senior Vice President
George Robinson	Vice President – Insurance Operations
Wee Yuen Chin	Treasurer

### Parent and Affiliated Companies

The Company is a member of an insurance holding company system as defined in ORS 732.548. The Company is 100% owned by Willamette Dental of Idaho, Inc., which is under common control with the corporations listed below. The ultimate controlling person of the holding company is Eugene C. Skourtes, who owns 100% of the following (except where indicated otherwise):

Willamette Dental Management Corporation – (WDMC) an Oregon S Corporation that provides management and administrative services to all the companies within the insurance holding company system. Dr. Skourtes owns 75% of this corporation.

Willamette Dental Group, P.C. – (WDG) an Oregon S Corporation that is the dental professional provider within the states of Idaho and Oregon.

Eugene C. Skourtes, Inc., P.S., d.b.a. Willamette Dental Group Washington – a Washington S Corporation that is the dental professional provider within the state of Washington.

McClusky, Petruzelli, Skourtes Real Estate – an Oregon S Corporation that purchases and manages the dental clinics. Dr. Skourtes owns 33% of this corporation.

Acorn Corporation – Dr. Skourtes owns 50% of this corporation.

ENS Corporation – Dr. Skourtes owns 75% of this corporation.

Willamette Dental of Idaho, Inc. – a licensed health insurer in the state of Idaho. This corporation owns 100% of the following insurance subsidiaries:

Willamette Dental of Washington, Inc., a Washington C Corporation  
Willamette Dental Insurance, Inc., an Oregon C Corporation

## **INTERCOMPANY AGREEMENTS**

### **Business Services Agreement**

The Company entered into an administrative agreement with WDMC, which provides the following services to the Company:

#### **Monthly Services**

Management of insurance administration	Monthly financial statements
Secretarial support	Monthly accounting services
Marketing support	Information systems support
Account service and statistical support	Utilization & management review

#### **Quarterly & Annual**

Statutory financial statement preparation	Tax returns
Special projects	

Under the terms of this agreement, the Company pays WDMC a business service fee of \$4,000 for the monthly services plus an hourly fee for quarterly and annual administrative services, in addition to reimbursement of any direct expenses paid by WDMC on behalf of the Company.

A review of the agreements discussed above, concluded the terms appeared reasonable and fair. In addition, as of December 31, 2004, the Company did not have any management contract or exclusive agency contracts in effect that are prohibited by ORS 732.215 and ORS 732.220, respectively.

## **CONFLICT OF INTEREST**

The Company has a conflict of interest policy that requires officers and directors to report conflicts of interest to the Company. From a review of the completed conflict of interest questionnaires, it appeared that the affected personnel performed due diligence in completing the conflict of interest statements. No material conflicts of interest were noted.

## **CORPORATE RECORDS**

### **Board of Director Minutes**

In general, the review of 2002, 2003 and 2004 minutes of the Board of Directors indicated that the minutes support the transactions of the Company and the actions taken by its officers. In addition, the minutes indicated that the Board approves investments in accordance with the provisions of ORS 733.730 and ORS 733.740. A quorum, as defined by ORS 731.302, met at all of the meetings during the examination period.

### **Articles of Incorporation**

There were no amendments to the Articles of Incorporation during the period examined. The Articles of Incorporation conformed with Oregon statutes.

### **Bylaws**

No amendments were made to the Bylaws during the examination period.

### **Insurance Holding Company Registration Statement**

The Company filed an insurance holding company registration statement in accordance with the provisions of ORS 732.552, ORS 732.554, and Oregon Administrative Rule (OAR) 836-027-0020(1).

In a review of disbursement records, the examiners noted the Company shares a pool of employees with Willamette Dental of Washington, Inc., and Willamette Dental of Idaho, Inc. These employees, who perform duties for all three companies, are issued checks and W-2s in the name of the Company. These transactions are not disclosed in the financial statement. ORS 732.574(2) prohibits transactions between a domestic insurer and any person in the insurance holding company system without prior approval from the director.

**I recommend the Company prepare a written agreement with its parent and affiliate for payroll services, and submit it to the Oregon Insurance Division for approval. Additionally, the Company shall properly disclose all intercompany transactions between related parties in the Notes to Financial Statement and Schedule Y in its filed statements.**

### **FIDELITY BONDS AND OTHER INSURANCE**

The examination of insurance coverages involved a review of adequacy of limits and retentions, and the solvency of the insurers providing the coverages. The Company's insurance coverages are provided through its affiliate's insurance policies, whereby the Company is a named insured. Other insurance coverages in force at December 31, 2004, were as follows:

Commercial general liability	Employee benefit liability
Automobile liability	Employment contingent liability
Workers' compensation	Professional liability
Umbrella	

During the last examination, the examiners noted the Company was not named as an insured on a directors and officers liability policy issued to WDMC. The Company responded they had obtained an addendum to the policy then in force and no recommendation was made in the report. During the current examination, the Company again was not named on a directors and officers liability policy, which they explained was due to a clerical or typographical error. However, the Company is ultimately responsible to ensure they are adequately protected by insurance coverage, therefore, **I recommend, in the future, the Company review its directors and officers liability policies to make certain they are named as an insured.**

At December 31, 2004, the Company was insured up to \$150,000 per occurrence against losses from dishonest acts and fraud committed by its employees. The NAIC suggested minimum level of fidelity bond coverage for the size and volume of its operation is \$200,000. **I recommend the coverage for fidelity bond be increased to \$200,000. This recommendation is supported by the provisions of ORS 731.574(6), 731.302 and the NAIC Financial Condition Examiners Handbook.**

### **EMPLOYEE BENEFITS**

#### **Nonqualified Excess Employee Benefit Plan**

The Company and its affiliates have established a non-qualified excess employee benefit plan for practicing dentists with four years of service and senior management (defined as director level and above). The employee may defer 1% - 100% of compensation into the plan. Contributions are not matched by the Company, and 100% of the employee contributions are vested when made. Assets of the pension plan are owned by trust and are subject to claims of creditors.

#### **401(k) Plan**

Employees of WDMC and its affiliates, over the age of 21 and having completed one year of service with at least 1,000 hours, may choose to participate in the Company's 401(k) retirement savings plan, administered by Principal Financial Group. The Company matches the employee's contribution up to a maximum of 10% of their gross wages. The 401(k) plan has a six-year vesting schedule.

## **TERRITORY AND PLAN OF OPERATION**

The Company provides dental insurance throughout the State of Oregon. The business is comprised of commercial plans, government plans, and individual plans. The Company contracts with WDG for the provision of dental services to the Company's membership.

Pursuant to the provisions of ORS 750.095(2), the Company's contracting dental office agreement contains a "hold harmless" provision. The hold harmless provision requires, in the event of failure to pay by the Company for any reason, the contracting dental office shall look solely to the Company for compensation for covered services and not to the policyholder.

## **GROWTH OF THE COMPANY**

The growth of the Company over the past five years is reflected in the following schedule. The stated amounts were derived from Company's filed annual statements, except in those years when a triennial examination report has been published by the Oregon Insurance Division.

<b><u>Year</u></b>	<b><u>Assets</u></b>	<b><u>Liabilities</u></b>	<b><u>Net Worth</u></b>	<b><u>Net Income (Loss)</u></b>
2000	\$1,577,988	\$ 566,728	\$1,011,260	\$258,985
2001*	1,746,389	544,022	1,202,367	145,373
2002	1,921,062	624,563	1,296,499	142,690
2003	2,591,479	898,680	1,692,799	185,208
2004*	3,060,944	1,271,910	1,789,034	418,468

\*Per examination

## **LOSS EXPERIENCE**

The following exhibit reflects Company's loss experience from 2000 through 2004.

<b><u>Year</u></b>	<b><u>(1) Total Revenues</u></b>	<b><u>(2) Total Medical Expenses</u></b>	<b><u>(2/1) Ratio</u></b>
2000	\$10,270,627	\$ 9,268,454	91.40%
2001*	9,944,266	8,891,660	89.41%
2002	11,208,181	10,057,407	89.73%
2003	12,389,421	11,084,120	89.46%
2004*	13,602,490	12,121,988	89.12%

\*Per examination

The Company has an exclusive provider arrangement with WDG whereby the Company remits a capitated fee of approximately 90% of collected premiums to WDG for covered dental services. In addition, the Company offers a non-insurance discount product, called Dental Plus, which provides discounts on dental procedures. The Company charges an annual fee, which allows enrollees to receive discounted services from a panel of providers in which WDG participates.

### **REINSURANCE**

The Company does not have reinsurance. Reinsurance is not necessary since the entire risk for claims is transferred to WDG through the provider arrangement described above. The Oregon Insurance Division allows, under Director's Bulletin 96-2, the transfer of risk to a non-licensed entity, if the capitation is internal to a policy of insurance that is delivered by the health care service contractor.

### **ACCOUNTS AND RECORDS**

In general, the Company's records and source documentation supported the amounts presented in the Company's December 31, 2004, annual statement and were maintained in a manner by which the financial condition was readily verifiable pursuant to the provisions of ORS 733.170. In addition, books, records and investments were held within the State of Oregon pursuant to the provisions of ORS 732.245. However, attention is directed to the following issues as a result of this examination.

### **Notes to the Financial Statement**

The NAIC's Annual Statement Instructions manual for Health and the Accounting Practices and Procedures manual, SSAP No. 10, requires specific disclosures be made regarding income taxes.

SSAP No. 10, paragraph 20 and Notes to the Financial Statement 9.C. asks for disclosure of the significant components of income taxes incurred. The Company responded by repeating the amounts already stated in the Statement of Revenues and Expenses of the filed annual statement. The intent of the note is to disclose what makes up the amounts. The appendix to SSAP No. 10 provides specific examples on how insurers are to report the components of incurred income taxes.

SSAP No. 10, paragraph 22.B and Notes to the Financial Statement 9.E. requires disclosure of the amount of federal income taxes incurred in the current year and each preceding year, which are available for recoupment in the event of future losses. The Company has had net profits for the past several years and should be disclosing the potential recoupments based on federal tax laws.

SSAP No. 10, paragraph 23 and Notes to the Financial Statement 9.F. requires the disclosure of the names of the entities included in a consolidated federal tax return and the “substance of the written agreement” by which the tax is allocated amongst the entities. The Company failed to make the required disclosure.

**I recommend the Company report income taxes in accordance with the requirements of the NAIC Accounting Practices and Procedures manual, SSAP No. 10, and the Annual Statement Instructions manual for Health.**

**WILLAMETTE DENTAL INSURANCE, INC.**  
**BALANCE SHEET**  
**As of December 31, 2004**

<b><u>ASSETS</u></b>	<b><u>Per Company</u></b>	<b><u>Examination Adjustments</u></b>	<b><u>Per Examination</u></b>
Common stock (Note 1)	\$ 277,555	\$ 0	\$ 277,555
Cash & short term investments	2,031,250		2,031,250
Investment income due and accrued	949		949
Accident & health premiums due	129,241		129,241
Net deferred tax asset (Note 2)	124,587	(123,209)	1,378
Receivables from parent, subsidiaries and affiliates (Note 3)	398,939	(56,254)	342,685
AWI – Deferred compensation	<u>277,886</u>	<u>0</u>	<u>277,886</u>
Total Assets	<u>\$3,240,407</u>	<u>\$(179,463)</u>	<u>\$3,060,944</u>
 <b><u>LIABILITIES</u></b>			
Claims unpaid and unpaid claims adjustment expenses (Note 4)	\$ 0	\$ 0	\$ 0
Premiums received in advance	523,521		523,521
General expenses due	54,416		54,416
Current federal income tax payable and interest thereon (Note 5)		303,979	303,979
Amounts withheld for others	385,969		385,969
Amounts due to parent, subsidiaries and affiliates (Note 3)	<u>0</u>	<u>4,025</u>	<u>4,025</u>
Total Liabilities	<u>963,906</u>	<u>308,004</u>	<u>1,271,910</u>
 <b><u>CAPITAL &amp; SURPLUS</u></b>			
Common capital stock	1,000		1,000
Paid in capital	829,505		829,505
Unassigned funds	<u>1,445,996</u>	<u>(487,467)</u>	<u>958,529</u>
Total Capital and Surplus	<u>2,276,501</u>	<u>(487,467)</u>	<u>1,789,034</u>
Total Liabilities, Capital and Surplus	<u>\$3,240,407</u>	<u>\$(179,463)</u>	<u>\$3,060,944</u>

**WILLAMETTE DENTAL INSURANCE, INC.**  
**INCOME STATEMENT**  
**For the Year Ended December 31, 2004**

	<u>Per Company</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
Net premium income	\$13,474,574	\$ 0	\$13,474,574
Aggregate write-ins for other health related revenues	<u>127,916</u>	<u>0</u>	<u>127,916</u>
Total Revenues	<u>13,602,490</u>	<u>0</u>	<u>13,602,490</u>
 Medical & Hospital:			
Hospital/medical benefits	12,121,988		12,121,988
Less:			
Net reinsurance recoveries	<u>0</u>	<u>0</u>	<u>0</u>
Total medical and hospital	12,121,988		12,121,988
General administrative expenses	<u>787,334</u>	<u>0</u>	<u>787,334</u>
Total underwriting deductions	<u>12,909,322</u>	<u>0</u>	<u>12,909,322</u>
Net underwriting gain or (loss)	<u>693,168</u>	<u>0</u>	<u>693,168</u>
Net investment income earned	9,002		9,002
Net realized capital gains (loss)	<u>9,484</u>		<u>9,484</u>
Net investment gains (loss)	<u>18,486</u>	<u>0</u>	<u>18,486</u>
Net income before Federal income tax	711,654		711,654
Federal income tax incurred ( <b>Note 3</b> )	<u>232,906</u>	<u>60,280</u>	<u>293,186</u>
Net income	<u>\$ 478,748</u>	<u>\$ (60,280)</u>	<u>\$ 418,468</u>

**CAPITAL & SURPLUS**

Capital and surplus – December 31, 2003	<u>\$ 1,692,799</u>	<u>\$ 0</u>	<u>\$ 1,692,799</u>
 Gains and losses to capital and surplus			
Net income or (loss)	478,748	(60,280)	418,468
Net unrealized capital gains and losses	13,214		13,214
Change in deferred income tax ( <b>Note 2</b> )	18,184	(123,209)	(105,025)
AWI – Audit adjustment	73,558		73,558
Rounding	0	(1)	(1)
Examination Adjustments	<u>0</u>	<u>(303,979)</u>	<u>(303,979)</u>
Net change in capital and surplus	<u>583,704</u>	<u>(487,469)</u>	<u>96,235</u>
 Capital and surplus – December 31, 2004	<u>\$ 2,276,503</u>	<u>\$(487,469)</u>	<u>\$ 1,789,034</u>

## NOTES TO THE FINANCIAL STATEMENT

### Note 1 – Common Stock

Common stocks are represented by investments in seven separate mutual funds. All were listed with a Nationally Recognized Statistical Rating Organization (NRSRO) and were carried on the books at fair market value in accordance with guidelines specified in SSAP No. 30 and the NAIC Purposes and Procedures of the Securities Valuation Office manual.

### Note 2 – Net Deferred Tax Asset

Per company	\$124,587
Per examination	<u>1,378</u>
Overstatement	<u>\$123,209</u>

The adjustments are made as a result of improper inclusion of a liability for the nonqualified excess plan (deferred compensation), from the treatment of unrealized gains as a deferred tax asset rather than a deferred tax liability, and from not using the unused accrued vacation reserve as a component of the deferred tax asset.

### Note 3 – Receivable from (Payable to) Parent, Subsidiaries and Affiliates

	<u>Receivable from Parent, Subs and Affiliates</u>	<u>Payable to Parent, Subs and Affiliates</u>
Per company	\$398,939	\$ 0
Per examination	<u>342,685</u>	<u>4,025</u>
Overstatement	<u>\$ (56,254)</u>	<u>\$4,025</u>

The Company recorded receivables due from three affiliated companies totaling \$342,685 and netted it against a payable due to a fourth affiliate in the amount of \$4,025. The difference, \$338,660, was paid on February 8, 2005, by a check from WDG. The examiners were unable to determine whether the offsetting of the payable against the receivables met the requirements of SSAP No. 64, paragraph 2, and therefore the Company should be reporting payables and receivables from its individual affiliates separately.

**I recommend the Company settle receivables and payables from the parent and each of its affiliates separately, and/or establish management agreements with each entity that allow offsetting of receivables and payables in accordance with SSAP No. 64. These transactions shall be reported in the Notes to Financial Statement and Schedule Y – Part 2 of the filed financial statements and in the holding company registration statement (Form B).**

The receivable also included an account for federal and state income tax payable in the amount of \$60,280. This represents an overpayment made to Willamette Dental of Idaho, Inc, for estimated taxes. This amount was reclassified to the Statement of Revenue and Expense under the account federal income tax incurred.

**Note 4 - Claims Unpaid and Unpaid Claims Adjustment Expenses**

There are no reserves for unpaid claims since the Company has an agreement with WDG to provide dental services for subscribers in return for a capitated payment. After payment of the capitation fee, the Company is no longer obligated to pay for any further dental claims costs. Under the dental plus coverage, the subscriber pays an annual premium to the Company in return for discounts on dental procedures.

**Note 5 – Current Federal and Foreign Income Tax Payable and Interest Thereon**

Per company	\$ 0
Per examination	<u>303,979</u>
Understatement	<u>\$303,979</u>

The adjustment was made by the Company subsequent to the filing of its 2004 annual statement, and was the result of a change in estimates made by the consulting tax preparer, DiLorenzo & Company, PC.

**SUMMARY OF COMMENTS AND RECOMMENDATIONS**

Page

- 9 I recommend the company prepare a written agreement with its parent and affiliate for payroll services, and submit it to the Oregon Insurance Division for approval. Additionally, the Company shall properly disclose intercompany transactions between related parties in the Notes to Financial Statement and Schedule Y in its filed statements.
- 9 I recommend, in the future, the Company review its directors and officers liability policies to make certain they are named as an insured.
- 10 I recommend the coverage for fidelity bond be increased to \$200,000. This recommendation is supported by the provisions of ORS 731.574(6), 731.302 and the NAIC Financial Condition Examiners Handbook.

Page

- 13 I recommend the Company report income taxes in accordance with the requirements of the NAIC Accounting Practices and Procedures manual, SSAP No. 10, and the Annual Statement Instructions manual for Health.
- 16 I recommend the Company settle receivables and payables from the parent and each of its affiliates separately, and/or establish management agreements with each entity that allow offsetting of receivables and payables in accordance with SSAP No. 64. These transactions shall be reported in the Notes to Financial Statement and Schedule Y – Part 2 of the filed financial statements and in the holding company registration statement (Form B).

**CONCLUSION**

During the three year period covered by this examination, the Company's net worth increased from \$1,202,367 as presented in the December 31, 2001 financial statements to \$1,789,034, as shown in this report of examination. The comparative assets and liabilities are shown below:

	<b><u>2004</u></b>	<b><u>December 31,</u></b> <b><u>2001</u></b>	<b><u>Change</u></b>
Assets	\$3,060,944	\$1,746,389	\$1,314,555
Liabilities	<u>1,271,910</u>	<u>544,022</u>	<u>(727,888)</u>
Net worth	<u>\$1,789,034</u>	<u>\$1,202,367</u>	<u>\$ 586,667</u>

**SUBSEQUENT EVENTS**

The Company filed an amended 2004 annual statement with the Oregon Insurance Division on July 6, 2005. This filing is contrary to the provisions of SSAP No. 3, paragraph 10, which states: "Corrections of errors in previously issued financial statements shall be reported as adjustments to unassigned funds (surplus) in the period an error is detected. If a reporting entity becomes aware of a material error in a previously filed financial statement after it has been submitted to the appropriate regulatory agency, the entity shall file or be directed to file an amended financial statement if approved by its domiciliary regulator." No such approval was sought nor given.

## **ACKNOWLEDGMENT**

The cooperation and assistance extended by the officers and employees of the Company during the examination process are gratefully acknowledged.

In addition to the undersigned, Mark Giffin, CFE, and Raymond W. Anderson, insurance examiners for the State of Oregon, Department of Consumer and Business Services, Insurance Division, participated in the examination.

Respectfully submitted,

---

Greg A. Lathrop, CFE  
Supervising Insurance Examiner  
Insurance Division  
Department of Consumer and Business Services  
State of Oregon

**AFFIDAVIT**

STATE OF OREGON            )  
  )  ss  
County of Marion            )

Greg A. Lathrop, CFE, being duly sworn, deposes and says that the preceding report of financial examination as of December 31, 2004, of Willamette Dental Insurance, Inc., Beaverton, Oregon, subscribed by him is true and correct to the best of his knowledge and belief.

\_\_\_\_\_  
Greg A. Lathrop, CFE  
Supervising Insurance Examiner  
Insurance Division  
Department of Consumer and Business Services  
State of Oregon

Subscribed and sworn to before me this \_\_\_\_\_ day of \_\_\_\_\_, 2005.

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

My Commission Expires: \_\_\_\_\_