

**STATE OF WASHINGTON  
OFFICE OF THE INSURANCE  
COMMISSIONER**



**FINANCIAL EXAMINATION**

**of**

**Washington Dental Service  
Seattle, Washington**

**NAIC CODE 47341  
DECEMBER 31, 2007**

**SALUTATION**

Seattle, Washington  
April 20, 2009

The Honorable Mike Kreidler, Commissioner  
Washington State Office of the Insurance Commissioner (OIC)  
Insurance Building – Capitol Campus  
302 Sid Snyder Avenue SW, Suite 200  
Olympia, WA 98504

Dear Commissioner Kreidler:

In accordance with your instructions, and in compliance with the statutory requirements of RCW 48.44.145 and RCW 48.03.010, an examination was made of the corporate affairs and financial records of

**Washington Dental Service**

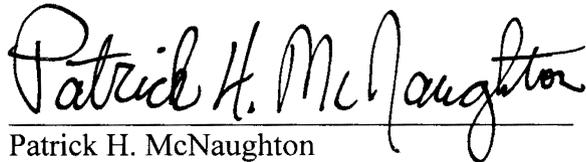
of

Seattle, Washington

hereinafter referred to as “WDS” or the “Company,” at the location of its home office, 9706 Fourth Avenue Northeast, Seattle, Washington 98115. This report is respectfully submitted showing the condition of the Company as of December 31, 2007.

**CHIEF EXAMINER'S AFFIDAVIT**

I hereby certify I have read the attached Report of the Financial Examination of Washington Dental Service of Seattle, Washington. This report shows the financial condition and related corporate matters as of December 31, 2007.



Patrick H. McNaughton  
Chief Examiner

4-20-09

Date

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## **SCOPE OF THE EXAMINATION**

This examination covers the period January 1, 2003 through December 31, 2007 and comprises a comprehensive review of the books and records of the Company. The examination followed the statutory requirements contained in the Washington Administrative Code (WAC), the Revised Code of Washington (RCW), and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (FCEH). The examination included identification and disposition of material transactions and events occurring subsequent to the date of examination that were noted during the examination.

Corporate records, external reference materials, and various aspects of the Company's operating procedures and financial records were reviewed and tested during the course of this examination and are commented upon in the following sections of this report. In addition, the Company's certified public accountant's (CPA's) work papers were reviewed and utilized, where possible, to facilitate efficiency in the examination.

## **INSTRUCTIONS**

The examiners reviewed the Company's filed 2007 NAIC Annual Statement as part of the statutory examination. This review was performed to determine if the Company completed the NAIC Annual Statement in accordance with the NAIC Annual Statement Instructions and to determine if the Company's accounts and records were prepared and maintained in accordance with Title 48 RCW, Title 284 WAC, and the NAIC Statements of Statutory Accounting Principles (SSAP) as contained in the NAIC Accounting Practices and Procedures Manual (AP&P).

### **1. NAIC Annual Statement Errors and Misclassifications**

The results of the examination disclosed several instances in which the Company's filing of the 2007 NAIC Annual Statement did not conform to the NAIC Accounting Practices and Procedures Manual and the NAIC Annual Statement Instructions.

a. **Depreciation of Electronic Data Processing (EDP) Equipment**

The Company incorrectly depreciated EDP equipment over a period of five or more years. SSAP No. 79, paragraph 3, and RCW 48.12.010(11) states that EDP equipment shall be depreciated over the lesser of its useful life or three years. No examination report adjustment is needed due to immateriality.

b. **Retrospectively Rated Contract Premium Disclosure**

In the 2007 NAIC Annual Statement, Notes to Financial Statement, No. 23, and the 2003 through 2006 NAIC Annual Statements, Notes to Financial Statement, No. 24, the Company did not disclose the amount and percentage of net premiums written for retrospectively rated contracts, in accordance with SSAP No. 66, paragraph 12.

As of December 31, 2007, the amount of net premiums written by the Company that are subject to retrospective rating features was \$240,675,325, representing 63% of the total premiums written. This disclosure error had no impact on the Company's reported capital and surplus.

c. Claim Expenses and Claim Adjustment Expenses

The Company misclassified payments to providers covered under capitation service arrangements as claim expenses. The payments compensated providers for submitting utilization data to the Company. These are "Other claim adjustment expenses" as defined by SSAP No.85, paragraph 4.b. No examination report adjustment is needed due to immateriality.

d. Unpaid Claims Adjustment Expenses

The Company incorrectly accrued unpaid claim adjustment expenses (CAE) for its Administrative Service Contract Plan (ASC). This practice is not in compliance with SSAP No. 47, paragraph 11, which requires administrators not to record aggregate reserves, claim/loss reserves, or liabilities for any other claim costs paid by the administrator on behalf of uninsured plans. No examination report adjustment is needed due to immateriality.

e. Reclassification of Cash to Receivables/Payable for Securities

The Company incorrectly recorded five securities transactions. The transactions occurred in December 2007 but were settled in January 2008. Pursuant to the 2007 NAIC Annual Statement Instructions, Line 8 and Line 16, these pending transactions as of December 31, 2007 should be reflected as "Receivables for securities" or "Payable for Securities". (See examination adjustment No. 1, debiting "Receivables for securities" in the amount of \$2,716,543, and crediting "Payable for securities" in the amount of \$1,914,000 and "Cash, cash equivalents and short-term investments" in the amount of \$802,543.)

f. Reclassification of General Expenses Due and Accrued

The Company incorrectly reported refunds due to policyholders as "General expenses due and accrued". The refunds were for returning premium payments to policyholders whose dependents are no longer eligible for coverage due to the fact that they have exceeded the age limitation. The refunds should be treated as a reduction of uncollected premium in accordance with 2007 NAIC Annual Statement Instructions. No examination report adjustment is needed due to immateriality.

g. Filing Exempt - Reporting, Rating, and Monitoring

WDS did not monitor the rating of its securities to ensure they met the filing exempt conditions, as required by the NAIC Purposes and Procedures of the NAIC Securities Valuation Office (SVO) Manual. WDS relies on an outside contractor to comply with SVO reporting, rating, and monitoring requirements. WDS could not explain rating discrepancies between its 2007 NAIC Annual Statement, Schedule D and SVO database. The rating discrepancies did not affect the reporting value of the securities as recorded on the 2007 NAIC Annual Statement.

**The Company is instructed to file an accurate statement of its financial condition, transactions, and affairs in compliance with RCW 48.43.097, which requires the filing of its financial statements in accordance with the NAIC AP&P Manual, and with WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions.**

**2. Prior Approval of Form D Filing – Inter-company Services Agreement**

An inter-company services agreement between WDS and Washington Dental Service Foundation, LLC (WDSF) effective July 1, 2001 has never been filed with OIC. Under the agreement, WDS is to provide various services in exchange for monthly payments. Payment amounts were specified at the inception of the agreement and have never been updated to reflect actual cost.

RCW 48.31C.050(2)(d) requires that management agreements, service contracts, and cost-sharing arrangements not be entered into unless a health carrier has notified the commissioner in writing of its intention to enter into the transactions. RCW 48.31.C.050(1)(a) and SSAP 70, paragraph 8, require that transaction terms be fair and reasonable. WAC 284-18A-420 requires the notification on Form D.

**The Company is instructed to comply with RCW 48.31C.050 and WAC 284-18A-420 by filing a Form D with fair and reasonable terms as defined in SSAP 70, paragraph 8.**

**3. Form B Disclosure – Health Carrier Holding Company System Annual Registration Statement**

In the Form B filings, under item 5(a), WDS failed to disclose its investments in Washington Dental Service Foundation, LLC (WDSF) during the period of 2003 to 2007. Under item 5(e), WDS failed to disclose two inter-company services agreements: the agreement between WDS and WDSF, effective July 1, 2001; the agreement between WDS and the Institute of Oral Health, LLC, effective December 1, 2006.

RCW 48.31C.040(2)(c)(i) requires the disclosure of investment transactions between the health carrier and its affiliates. RCW 48.31C.040(2)(c)(v) requires the disclosure of all management agreements, service contracts, and cost-sharing arrangements. WAC 284-18A-370 requires the disclosure on the Annual Registration Statement, Form B.

**The Company is instructed to comply with RCW 48.31C.040 and WAC 284-18A-370 to properly disclose all existing inter-company services agreements annually, and all investment transactions as necessary.**

#### **4. Custodial Agreement**

The Company responded in its 2007 NAIC Annual Statement, General Interrogatories, No. 26, that its custodial agreement with State Street Bank and Trust Company complied with the FCEH. However, it did not contain several provisions as required by the FCEH. Some examples are: the insurance company shall be entitled to examine, on the premises of the custodian, its records relating to securities; and, that if the custodial agreement is terminated, the custodian must provide written notification to the commissioner. All details have been provided to the Company.

**The Company is instructed to file an accurate statement of its financial condition, transactions, and affairs in compliance with RCW 48.43.097, which requires the filing of its financial statements in accordance with the NAIC AP&P and pursuant to WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions.**

### **COMMENTS AND RECOMMENDATIONS**

None

### **COMPANY PROFILE**

#### **Company History**

The Company was incorporated on October 18, 1954, and was issued a certificate of registration as a health care service contractor by the OIC on June 21, 1955. WDS is a tax-exempt organization, and a founding member of the Delta Dental Plans Association (DDPA). DDPA member companies operate in all 50 states, the District of Columbia and Puerto Rico. The DDPA member companies provide coverage to over 50 million people, enrolled in over 88,000 groups.

#### **Capitalization**

Pursuant to RCW 48.44.037, the Company met minimum capital requirements with \$122 million net worth (capital and surplus) as of December 31, 2007.

#### **Territory and Plan of Operation**

The Company provides dental insurance coverage exclusively in Washington State. A significant portion of the Company's customer base is concentrated in state government agencies and the aerospace industry. In 2007, more than 40% of its business came from three major customers.

**Growth of the Company**

The following reflects the growth of the Company based on its filed NAIC Annual Statements for the years ending December 31:

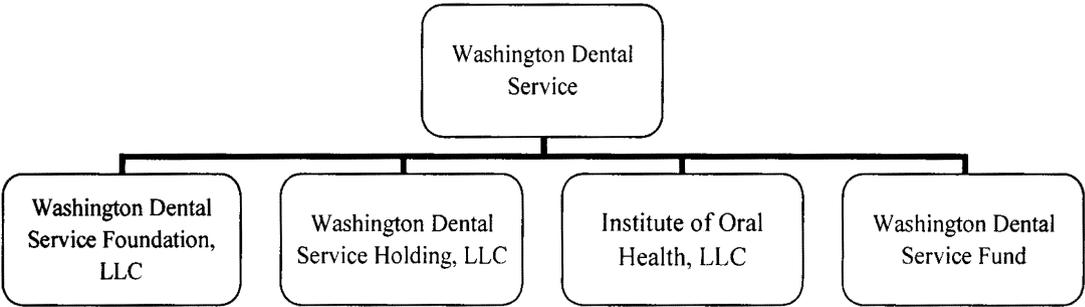
<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital &amp; Surplus</u>
2007	\$ 178,216,052	\$ 56,207,272	\$ 122,008,780
2006	170,167,786	52,284,594	117,883,192
2005	137,846,943	40,414,144	97,432,799
2004	122,937,981	41,095,689	81,842,292
2003	111,696,264	36,959,467	74,736,797

<u>Year</u>	<u>Premium Earned</u>	<u>Net Underwriting Gain(Loss)</u>	<u>Net Investment Gain(Loss)</u>	<u>Net Income</u>
2007	\$ 380,971,238	\$ 8,880,891	\$ 9,498,937	\$ 15,762,154
2006	357,623,534	13,695,539	10,012,229	24,239,816
2005	341,326,575	11,059,990	5,603,423	16,878,679
2004	324,002,481	6,576,500	4,728,473	11,586,674
2003	314,144,706	5,637,754	1,487,900	5,121,174

**AFFILIATED COMPANIES**

**Organizational Chart**

The following is an organizational chart as of December 31, 2007:



**Inter-company Agreements**

An administrative service agreement was entered into on July 1, 2001 between WDS and Washington Dental Service Foundation (WDSF), a wholly owned subsidiary. In exchange for monthly payments from WDSF, WDS provides services such as human resources, payroll, office space, information systems, network support, accounting, and financial services. On December 1, 2006, an administrative service agreement encompassing the same support services was entered into between WDS and the Institute for Oral Health (IOH), a wholly owned subsidiary. (See Instructions No. 2 and No. 3.)

## MANAGEMENT AND CONTROLS

### **Ownership**

Pursuant to the Company's Bylaws effective June 29, 2005, any dentist licensed by the state of Washington to engage in the practice of dentistry in this state, who is actively practicing dentistry, and who executes a service contract with WDS, is eligible for membership in the Company. The word "member" means a person holding a membership in the Company. Ten percent of the members in good standing of the Company of record shall constitute a quorum at an annual or a special meeting of the members.

The Company's Articles of Incorporation state that the internal affairs of the Company shall be governed by a Board of Directors (BOD). The BOD are elected by a Board of Trustees, which are elected by members of the Company.

### **Board of Trustees (BOT)**

The Board of Trustees is composed of member dentists who represent various geographic areas of Washington State. Each geographic area is entitled to be represented by at least one trustee plus any additional number of trustees authorized by the BOD, based on the number of members who practice in that geographic area. The term of each trustee is three years. As of December 31, 2007, the BOT had 36 members.

### **Board of Directors (BOD)**

The management of the Company is vested in the BOD as provided for by its Bylaws. A majority of the directors constitutes a quorum for the transaction of business. The BOD is made up of two classes of directors: Member Directors, who are members of the Company when elected, and Public Directors, who are not members or employees of the Company or individuals with a D.D.S. or D.M.D. degree and who do not have financial interests in any dental care organization. In addition, the president and CEO shall automatically be considered a Public Director of the Board and is not required to be elected or re-elected. Each elected director may serve no more than three full terms consecutively, with three years considered as one full term.

In 2007, the BOD delegated its management functions to the following standing and special committees: Audit Committee, Dental Policy Committee, Investment Committee, Governance and Nominating Committee, Human Resources and Compensation Committee, Provider Compensation Committee, Budget Committee and Strategy Committee. The following individuals were directors as of December 31, 2007:

Richard R. Albrecht, Chair, Board of Directors  
Richard G. Schweikhardt, Vice Chair, Board of Directors  
David W. Branch, DDS  
Patrick J. Dineen  
James D. Dwyer  
Robert L. Gerth, DDS

Roberta J. Greene  
Robb B. Heinrich, DDS  
Wally W. Kegel, DDS  
Allen W. Puckett

### **Officers**

The Company's Bylaws require that officers be appointed or elected by the BOD. The Company's Bylaws also require that the Chair and Vice Chair of the BOD be officers of the Company. Officers as of December 31, 2007 were:

James D. Dwyer	President and Chief Executive Officer
Christine M. Johnson, DDS	Secretary
John M. Henricksen, DDS	Treasurer
Richard R. Albrecht	Chair, Board of Directors
Richard G. Schweikhardt	Vice Chair, Board of Directors

### **Conflict of Interest**

The Company's policy requires that members of the BOD, the BOT, and senior management file a conflict of interest statement each year. Any conflict is referred to the Governance and Nominating Committee for final resolution. The purpose of the statement is to detect any activities or participation on the part of an employee that could possibly be interpreted as a conflict of interest. No exceptions were noted.

### **Fidelity Bond and Other Insurance**

The Company is protected under a fidelity crime coverage plan. The coverage plan has a limit of \$2,000,000 each line and retention of \$25,000 per loss as of December 31, 2007. The coverage limit amount exceeds the NAIC recommended minimum coverage range of \$1,000,000 to \$1,250,000.

The Company is also protected under various other insurance policies. They are:

- Property Plus Policy (Common Policy) which provides general liability, property, and auto coverage
- Directors and Officers Liability Policy
- Errors and Omissions Liability Policy
- Employee Benefit Plan Fiduciary Liability Policy

A review of the Company's insurance policies indicate insurance coverage has been purchased and is in force covering hazards to which the Company is exposed as of the examination date.

### **Officers', Employees', and Agents' Welfare and Pension Plans**

#### Retirement Pension Plan

WDS offers a qualified defined benefit pension plan to employees who are at least 21 years of age and have completed twelve consecutive months of employment with the Company. Benefits are based on years of service and the final five year average annual compensation. On October 5, 2007, the BOD approved the termination of this plan. (See Subsequent Events.)

#### 401(k) Savings Plan

WDS offers a qualified defined contribution plan under section 401(k) of the Internal Revenue Code to all employees who have completed three months of service at the Company. Employees may voluntarily defer up to 60% of their pre-tax salary to the plan, subject to statutory limitations. WDS will match the employee's elected deferral up to 8% of the employee's compensation. The plan had an asset value of \$21,791,000 as of December 31, 2007 and the Company contributed \$1,024,000 to the plan in 2007.

#### Supplemental Executive Deferred Compensation Plan

WDS offers a fully funded defined benefit plan to provide supplemental retirement benefits for its senior management. The plan had assets of \$1,298,000 as of December 31, 2007 and the Company contributed \$312,000 to the plan in 2007.

### **CORPORATE RECORDS**

The Articles of Incorporation, Bylaws, Certificate of Registration, and minutes of the BOD and committees were reviewed for the period under examination. All BOD meetings were conducted with a quorum present. No exceptions were noted.

### **ACTUARIAL REVIEW**

The OIC health actuary reviewed the Company's actuarial report, claims unpaid, and other claim liabilities as of December 31, 2007. The review included: examining the Company's reserving philosophy and methodologies to determine the reasonableness of the claim liabilities, verifying that claim liabilities include provisions for all components noted in SSAP No. 55, paragraphs 7 and 8, and SSAP No. 54, paragraphs 12, 13, 18 and 19; reviewing historical paid claims and loss ratios; and, checking the consistency of the incurred-paid data from the Company's system with the figures reported in the 2006 NAIC Annual Statement. The unpaid claims and claim adjustment expenses were determined to be within a reasonable range as of December 31, 2007.

### **REINSURANCE**

The Company has not engaged in any reinsurance transactions during the examination period.

### **SPECIAL DEPOSITS**

The OIC requires the filing of the Underwriting of Indemnity Calculation of Funded Reserve form pursuant to WAC 284-07-050(8). The calculation as of December 31, 2007, pursuant to WAC 284-44-330 and WAC 284-44-340, requires a minimum deposit of approximately \$2.5 million. To satisfy the funded reserve required, the Company has various securities with a total fair market value of \$2.5 million held in a special deposit account by its custodian, US Bank, pursuant to RCW 48.44.030.

## **ACCOUNTING RECORDS AND INFORMATION SYSTEM**

The Company maintains its accounting records on a Generally Accepted Accounting Principles (GAAP) basis and adjusts it to Statutory Accounting Practice (SAP) basis for NAIC Annual Statement reporting. The Company was audited annually by KPMG, LLC from 2004 to 2007 and Deloitte & Touche, LLP in 2003. The Company received unqualified opinions for all years under review. The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the planning and testing phase of the examination and no material exceptions were noted.

The management of WDS is sufficiently knowledgeable of the information system process. System development, acquisition, and maintenance controls were evaluated to gain assurance that appropriate internal controls are in place. Operations and application controls were reviewed to determine the type of hardware installed; operating systems and proprietary software in use; back up and recovery facilities employed; and the internal controls exercised to maintain data security. We concluded that sufficient internal controls were in place and monitored by the Company during the examination period.

## **SUBSEQUENT EVENTS**

On April 18, 2008, the Company filed with the Internal Revenue Service (IRS) a request seeking a favorable determination on the termination of its defined benefit pension plan. Currently, the Company is waiting for the IRS response before distributing all assets of the plan.

The OIC withdrew approval of an investment by WDS in WDSH effective August 19, 2008. On August 27, 2008, a Special Consent Order No. 106 was issued by the OIC allowing WDS to maintain its investment in WDSH and allowing WDS to invest in new ventures in the amount of \$5.35 million through its existing funds at WDSH. The Special Consent Order No. 106 will expire August 26, 2010.

## **FINANCIAL STATEMENTS**

The following examination financial statements show the financial condition of the Company as of December 31, 2007:

- Assets, Liabilities, Capital, and Surplus
- Statement of Revenue and Expenses
- Five-Year Reconciliation of Capital and Surplus
- Analysis of Changes in Financial Statements Resulting from the Examination

**Washington Dental Service**  
**Assets, Liabilities, Capital, and Surplus**  
**As of December 31, 2007**

	<u>BALANCE</u> <u>PER COMPANY</u>	ref.	<u>EXAMINATION</u> <u>ADJUSTMENTS</u>	<u>BALANCE PER</u> <u>EXAMINATION</u>
<b>Assets</b>				
Bonds	\$54,340,981			\$54,340,981
Preferred stocks	205,600			205,600
Common stocks	76,149,388			76,149,388
Real estate:				
Properties occupied by the Company	6,288,495			6,288,495
Cash and short-term investments	21,149,614	1	(\$802,543)	20,347,071
Receivables for securities	0	1	2,716,543	2,716,543
Investment income due and accrued	604,448			604,448
Premiums and considerations:				
Uncollected premiums and agents' balances	7,554,730			7,554,730
Amounts receivable relating to uninsured plans	8,829,942			8,829,942
Electronic data processing equipment and software	1,669,607			1,669,607
Receivables from parent, subsidiaries and affiliates	117,595			117,595
Health care and other amounts receivable	7,329			7,329
Aggregate write-ins for other than invested assets	1,298,323			1,298,323
<b>Total Assets</b>	<b><u>\$178,216,052</u></b>		<b><u>\$1,914,000</u></b>	<b><u>\$180,130,052</u></b>
 <b>Liabilities, Capital, and Surplus</b>				
Claims unpaid	\$15,737,000			\$15,737,000
Unpaid claims adjustment expenses	1,217,304			1,217,304
Aggregate health policy reserves	23,467,305			23,467,305
Premiums received in advance	2,287,316			2,287,316
General expenses due or accrued	11,453,407			11,453,407
Amounts withheld or retained for the account of others	101,660			101,660
Amounts due to parent, subsidiaries and affiliates	644,764			644,764
Payable for securities	0	1	\$1,914,000	1,914,000
Liabilities for amounts held under uninsured plans	193			193
Aggregate write-ins for other liabilities	1,298,323			1,298,323
<b>Total Liabilities</b>	<b><u>56,207,272</u></b>		<b><u>1,914,000</u></b>	<b><u>58,121,272</u></b>
Gross paid in and contributed surplus	0			0
Surplus notes	0			0
Unassigned funds (surplus)	122,008,780			122,008,780
<b>Total Capital and Surplus</b>	<b><u>122,008,780</u></b>			<b><u>122,008,780</u></b>
<b>Total Liabilities, Capital, and Surplus</b>	<b><u>\$178,216,052</u></b>		<b><u>\$1,914,000</u></b>	<b><u>\$180,130,052</u></b>

**Washington Dental Service  
Statement of Revenue and Expenses  
For the Year Ended December 31, 2007**

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>
Member months	10,863,979		10,863,979
Net premium income	\$380,971,238		\$380,971,238
<b>Total revenues</b>	<b>380,971,238</b>	<b>\$0</b>	<b>380,971,238</b>
<b><u>Hospital and Medical:</u></b>			
Other professional services	335,128,852		335,128,852
Subtotal	335,128,852		335,128,852
Claims adjustment expenses	14,443,529		14,443,529
General administrative expenses	22,517,966		22,517,966
Total underwriting deductions	372,090,347		372,090,347
Net underwriting gain or (loss)	8,880,891		8,880,891
Net investment income earned	5,288,928		5,288,928
Net realized capital gains or (losses)	4,210,009		4,210,009
Net investment gains or (losses)	9,498,937		9,498,937
Aggregate write-ins for other income or expenses	(2,617,674)		(2,617,674)
Net income or (loss) before FIT	15,762,154		15,762,154
Federal and foreign income taxes incurred	0		0
<b>Net Income (Loss)</b>	<b>\$15,762,154</b>	<b>\$0</b>	<b>\$15,762,154</b>
<b><u>CAPITAL AND SURPLUS ACCOUNT</u></b>			
Capital and surplus prior reporting period	\$117,883,192	\$0	\$117,883,192
Net Income (loss) from above	15,762,154		15,762,154
Change in net unrealized capital gains and losses	(4,964,759)		(4,964,759)
Change in nonadmitted assets	(6,671,807)		(6,671,807)
Net change in capital and surplus	4,125,588		4,125,588
<b>Capital and surplus end of reporting period</b>	<b>\$122,008,780</b>	<b>\$0</b>	<b>\$122,008,780</b>

**Washington Dental Service  
Five Year Reconciliation of Capital and Surplus  
For the Years Ended December**

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
<b>Capital and surplus, prior reporting year</b>	<u>\$117,883,192</u>	<u>\$97,432,799</u>	<u>\$81,842,292</u>	<u>\$74,736,797</u>	<u>\$61,885,626</u>
Net income or (loss)	15,762,154	24,239,816	16,878,679	11,586,674	5,121,173
Change in net unrealized capital gains and losses	(4,964,759)	(3,777,030)	(3,947,065)	(3,730,396)	6,310,218
Change in nonadmitted assets	(6,671,807)	(12,393)	2,999,836	(327,274)	1,287,408
Aggregate write-ins for gains or (losses) in surplus	<u>0</u>	<u>0</u>	<u>(340,943)</u>	<u>(423,509)</u>	<u>132,372</u>
Net change in capital and surplus	<u>4,125,588</u>	<u>20,450,393</u>	<u>15,590,507</u>	<u>7,105,495</u>	<u>12,851,171</u>
<b>Capital and surplus, end of reporting period</b>	<u><b>\$122,008,780</b></u>	<u><b>\$117,883,192</b></u>	<u><b>\$97,432,799</b></u>	<u><b>\$81,842,292</b></u>	<u><b>\$74,736,797</b></u>

**Washington Dental Service**  
**Analysis of Changes in Financial Statement Resulting from the Examination**  
**For the Year Ended December 31, 2007**

	<u>BALANCE PER</u> <u>COMPANY</u>	<u>BALANCE PER</u> <u>EXAMINATION</u>	<u>ref.</u>	<u>INCREASE</u> <u>(DECREASE)</u> <u>IN SURPLUS</u>	<u>TOTAL</u>
<b>Capital and Surplus, December 31, 2007</b> <b>Per NAIC Annual Statement</b>					<b>\$122,008,780</b>
<b>ASSETS</b>					
Cash and short-term investments	\$21,149,614	\$20,347,071	1	(\$802,543)	
Receivables for securities	0	2,716,543	1	2,716,543	
<b>LIABILITIES</b>					
Payable for securities	0	(1,914,000)	1	<u>(1,914,000)</u>	
<b>Change in surplus</b>					<u><b>0</b></u>
<b>Capital and Surplus, December 31, 2007</b> <b>Per examination</b>					<u><b>\$122,008,780</b></u>

## NOTES TO THE FINANCIAL STATEMENTS

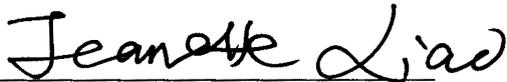
1. Investment transactions pending on December 31, 2007 and settled in January 2008 should be reported as “Receivable/Payable for securities”. An examination adjustment debiting “Receivables for securities” in the amount of \$2,716,543, and crediting “Payable for securities” in the amount of \$1,914,000 and “Cash, cash equivalents and short-term investments” in the amount of \$802,543, is reflected in the preceding financial statements. (See Instruction No. 1e.)

## ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and staff of Washington Dental Service during the course of this examination.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner; Carl M. Baker, CPA, CFE, CISA, Supervising Examiner; John R. Jacobson, AFE, CISA, AES, Automated Examination Specialist; Lichiou Lee, ASA, MAAA, Health Actuary; Timothy F. Hays, CPA, JD, Investment Specialist; Tony Quach, Financial Examiner; Ann Kauffman, CPA, Financial Examiner; all from the Washington State Office of the Insurance Commissioner, participated in the examination and the preparation of this report.

Respectfully submitted,



Jeanette Jiangtao Liao, CPA, CFE  
Examiner-in-Charge  
State of Washington

**AFFIDAVIT**

**STATE OF WASHINGTON**        }  
  }  
**COUNTY OF KING**            } **ss**  
  }

Jeanette Jiangtao Liao, being duly sworn, deposes and says that the foregoing report subscribed is true to the best of her knowledge and belief.

She attests that the examination of Washington Dental Service was performed in a manner consistent with the standards and procedures required or prescribed by the Washington State Office of the Insurance Commissioner and the National Association of Insurance Commissioners (NAIC).

*Jeanette Liao*  
\_\_\_\_\_  
Jeanette Jiangtao Liao, CPA, CFE  
Examiner-in-Charge  
State of Washington

Subscribed and sworn to before me on this 20th day of April, 2009.

*Colleen Jansen*  
\_\_\_\_\_  
Notary Public in and for the  
State of Washington.

