

STATE OF WASHINGTON  
OFFICE OF THE INSURANCE COMMISSIONER



FINANCIAL EXAMINATION  
OF  
WASHINGTON DENTAL SERVICE  
SEATTLE, WASHINGTON

NAIC CODE 47341  
December 31, 2012

Order No. 14-47  
Delta Dental of Washington  
(formerly Washington Dental Service)  
Exhibit A

**SALUTATION**

Seattle, Washington  
November 14, 2013

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 48.03.010, 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, WA 98115. This report is respectfully submitted showing the financial condition and related corporate matters of the Company as of December 31, 2012.

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, 2012.



Patrick H. McNaughton  
Chief Examiner

2-28-14

Date

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## SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2008 through December 31, 2012 and comprises a risk focused review of the books and records of the Company. The examination followed 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 Commissioner (NAIC) Financial Condition Examiners Handbook (FCEH). The examination included identification and disposition of material transactions and events occurring subsequent to the date of examination though the end of field work on November 14, 2013.

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 section of this report. In addition, the Company's Certified Public Accountants' (CPA's) work papers were reviewed and utilized, where possible, to facilitate efficiency in the examination.

This examination was performed in compliance with the 2012 NAIC FCEH which requires the examiner to consider the Company's risk management process, corporate governance structure, and control environment. The examiners utilized the information obtained during the examination to assess the Company's overall potential risks both currently and on an on-going basis, allowing the examiners to focus on the Company's greatest areas of risk, and providing assurance on the Company's financial statements as of the examination date.

## INSTRUCTIONS

The examiners reviewed the Company's filed 2012 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 outlined in the NAIC Accounting Practices and Procedures Manual (AP&P).

The following summarizes the exceptions noted while performing this review:

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

The results of the examination disclosed instances in which the Company's filing of the 2012 NAIC Annual Statement did not conform to the NAIC AP&P Manual and the NAIC Annual Statement Instructions. While the Company needs to correct these practices, none of the following items in this instruction were believed to be material to the financial statements and no examination adjustments were necessary.

#### **a) Notes to Financial Statements**

The contribution to WDS Holdings, LLC (WDSH) was incorrectly stated as \$15,000,000 in Note No. 10 of the 2012 NAIC Annual Statement. The amount should have been \$15,236,588. The contribution to the Institute for Oral Health, LLC (IOH) for 2010 was incorrectly stated as \$577,953 in Note No. 10 of the 2010 NAIC Annual Statement. The amount should have been \$588,336.

b) Schedule D

Two mortgage-backed securities were incorrectly reported as FE on the Schedule D. The NAIC Annual Statement Instructions require that they be identified, researched, modeled, and designated FM. The rating discrepancies did not affect the carrying value of the securities.

c) Schedule BA

The Company failed to report the Actual Cost in Schedule BA, Part 1 of the 2010 NAIC Annual Statement. In addition, the Book/Adjusted Carrying Value Less Encumbrances was overstated for WDS Holdings LLC by \$200,000. SSAP No. 97(8) requires that the Company use the equity method in valuing its investment in the affiliate and report the carrying value as \$14,227,631.

In the 2010 and 2011 NAIC Annual Statements, Schedule BA, Part 2, the Company erroneously reported Additional Investment Made After Acquisition as Actual Cost at Time of Acquisition. The Additional Investment Made After Acquisition was left blank.

d) Schedule Y

The Company did not include DD of Washington (DDWA), an affiliate through common control, on its Schedule Y - Part 1 of the 2010, 2011, and 2012 NAIC Annual Statements. DDWA should have been included as required by the NAIC Annual Statement Instructions. In addition, the Company did not report the name of an affiliate that had transactions with the Company in the Schedule Y - Part 2 of the 2008 and 2009 NAIC Annual Statements. The name should have been included as required by the NAIC Annual Statement Instructions.

e) Uncovered Claims

The Company did not report uncovered claims of \$5,836,922 on page 4, line 9, Hospital/medical benefits, column 2, and did not report a liability of \$264,000 on page 3, line 1, Claims unpaid, column 2 as required by the NAIC Annual Statement Instructions. The uncovered amounts were included in the total balances for these line items so the error had no effect on surplus.

**The Company is instructed to comply with RCW 48.43.097 by filing its financial statements in the general form and context approved by the NAIC and WAC 284-07-050(2)(a) which requires adherence to the NAIC Annual Statement Instructions and the AP&P.**

**2. Compliance with State Investment Laws**

The Company did not comply with several provisions of the Revised Code of Washington investment statutes:

- a) The Board of Directors (BOD) did not review and approve the investment policy on an annual basis as required by RCW 48.13.051.
- b) The Investment Policy (IP) does not address the delegation and monitoring of policies, procedures, and controls covering all aspects of the investment function as required by RCW 48.13.051(1). The IP only requires the establishment of internal controls to monitor compliance with, and detect deviations from the IP.
- c) The IP does not address the relationship of WDS' class of investments to WDS' products and liabilities as required by RCW 48.13.051(6).
- d) The IP does not address the manner in which the insurer intends to implement the provisions of RCW 48.13.041 as required RCW 48.13.051(7).

**The Company is instructed to comply with RCW 48.13.051 and RCW 48.13.041 by revising its IP to include all required provisions, and by ensuring that the BOD review and approve the IP at least annually. Evidence of the BOD review and approval must be documented in the BOD minutes.**

### **3. Actuarial Reserves**

The Company's actuarial calculations produced an inadequate reserve on page 3, line 1, Claims unpaid, for four out of the five years under examination. RCW 48.44.037(4) requires the Company to include an estimated amount to provide for the payment of all claims which have been incurred, whether reported or not. Furthermore, RCW 48.12.080(2) requires the Company to increase its loss reserves to an amount that is needed to make them adequate, when the Company's loss experience indicates that its loss reserves, however estimated, are inadequate. The OIC actuary has estimated that the Company is under-reserved by \$278,700 at December 31, 2012, which is 2.0 percent of unpaid claims. No examination adjustment is necessary due to immateriality.

In addition, the Company has not demonstrated that the BOD or one of its committees has received information regarding the reserves. The Audit Committee minutes briefly state that the financial statements were presented, but no specific mention of the reserves was documented. The NAIC Annual Statement Instructions state that the Appointed Actuary must report to the BOD or the Audit Committee each year on the items within the scope of the Actuarial Opinion. The minutes of the BOD should indicate that the Appointed Actuary has presented such information to the BOD or Audit Committee and that the Actuarial Opinion and the Actuarial Memorandum were made available.

**The Company is instructed to comply with RCW 48.44.037(4) and RCW 48.12.080(2), by recording an adequate estimate for claims unpaid. In addition, the Company is instructed to comply with WAC 284-07-050(2) and the NAIC Annual Statement Instructions which state that the Appointed Actuary must report to the BOD or the Audit Committee annually on the items within the scope of the Actuarial Opinion.**

### **4. Contributions to DD of Washington (DDWA)**

The Company incorrectly reported a single cash contribution to DDWA as a non-admitted asset of \$2 million in its 2009 NAIC Annual Statement. It continued to incorrectly report the distribution as a non-admitted asset in its 2010, 2011, and 2012 NAIC Annual Statements. The Company intended that the distribution would revert to WDS in the event that the US Internal Revenue Service (IRS) did not approve the non-profit status as per DDWA's Articles of Incorporation. SSAP No. 4 defines an asset as "probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events." The Company did not intend for its plans for the merger of WDS and DDWA to fail and was experiencing success in pursuing its goal. Thus, the distribution was incorrectly reported as a non-admitted asset in 2009, 2010, 2011, and 2012 in error, and should have been reported as a capital distribution.

**The Company is instructed to comply with RCW 48.43.097 by filing its financial statements in the form and context approved by the NAIC and WAC 284-07-060(2)(a) which requires adherence to the NAIC Annual Statement Instructions and the AP&P, SSAP No. 4.**

### **5. Services Agreement with Encara Corporation (Encara)**

The Company failed to report the Services Agreement with Encara, an affiliate, dated November 14, 2011, on its 2011 and 2012 Form B's that were submitted to OIC on May 12, 2012 and May 13, 2013,

respectively. RCW 48.31C.040(2)(c)(v) requires the Company to file all management agreements, service contracts, and cost sharing arrangements on a Form B annually.

**The Company is instructed to comply with RCW 48.31C.040(2)(c)(v) by including all required agreements and contracts in its Form B filings.**

#### **6. Employee Health Benefit Plans**

The Company reported dental insurance that it provided to its employees and their dependents as uninsured business. This business did not meet the definition of uninsured business as defined in SSAP No. 47 because the reporting entity was at risk of loss from claims experience. This group must therefore be reported as insured business. The unpaid claims amount for this group is estimated to be \$20,000. No examination adjustment is necessary due to immateriality.

**The Company is instructed to comply with RCW 48.43.097 by filing its financial statements in the form and context approved by the NAIC and WAC 284-07-060(2)(a) which requires adherence to the NAIC Annual Statement Instructions and the AP&P.**

### **COMMENTS AND RECOMMENDATIONS**

#### **1. Independence of Internal Audit**

Although the Director of Internal Audit (DIA) has access to the Audit Committee of the BOD, this position functionally reports to the Chief Financial Officer/Chief Operating Officer (CFO/COO), who also completes the performance evaluations of the DIA. The structure and reporting lines of internal audit should promote independence and objectivity. This can be achieved with a clear reporting line to the BOD and Audit Committee and an organizational structure that allows internal audit to operate independently of other functions of the organization.

**In order to maintain independence and objectivity, it is recommended that the internal audit function report functionally to the Chairperson of the Audit Committee and on a day-to-day basis, it should report administratively to management.**

#### **2. Control Weaknesses Over Review Process**

In some instances, the Company could not provide evidence of reviews and approvals for some supporting schedules and documents. Examples are:

- a) Internal communications did not contain the value of the reserves that were approved.
- b) The Company policy required all commissions to be reviewed by the senior accountant and commissions over 5 percent to be reviewed by the director of sales. Documentation of the review was not always maintained.
- c) No evidence of review was seen on the following schedules:
  - i. The rent schedule
  - ii. The determination of WDS home office property value as reported on Schedule A, Part 1
  - iii. The calculation of percentage of owner occupancy
  - iv. The depreciation schedule

The review of these documents would ensure the accuracy and integrity of the accounting records.

It is recommended that the Company keep a record of preparer/reviewer sign off to strengthen its control documentation and to evidence proper review and approval of significant transactions that support the balances that feed into the NAIC Annual Statement.

### 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.

#### **Capitalization**

Pursuant to RCW 48.44.037, the Company met minimum capital requirements with \$185 million net worth (capital and surplus) as of December 31, 2012.

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

The Company is registered in the state of Washington as a health care service contractor. It 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 2012, more than 38 percent of its business came from three major customers.

#### **Growth of Company**

The following reflects the growth of the Company as reported in its filed NAIC Annual Statements for the five year period under examination:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital &amp; Surplus</u>	
2012	\$232,952,670	\$48,285,395	\$184,667,275	
2011	212,117,138	51,127,125	160,990,013	
2010	191,587,755	45,905,355	145,682,400	
2009	186,852,822	56,535,240	130,317,582	
2008	158,245,564	53,914,366	104,331,198	

<u>Year</u>	<u>Premium Earned</u>	<u>Net</u>		<u>Net Income</u>
		<u>Underwriting</u>	<u>Net Investment</u>	
		<u>Gain (Loss)</u>	<u>Gain (Loss)</u>	
2012	\$388,054,803	\$20,667,268	\$6,629,855	\$27,421,882
2011	401,425,811	15,181,230	5,221,931	20,518,537
2010	411,835,708	15,361,127	5,699,550	21,353,583
2009	424,102,192	5,275,165	7,441,054	13,013,127
2008	407,194,424	15,610,732	(961,748)	20,089,548



Wisconsin. WDS owns 100 percent of WDSH which owns 20 percent of Healthentic. It provides intelligent information products to employers, brokers and carriers with the goal of reducing dental and medical costs through promoting overall health.

**Encara Corporation (Encara)** – Encara is a for-profit corporation formed on November 14, 2011 by WDS and Delta Dental companies in New Jersey, Virginia, and Wisconsin. Encara provides various marketing, data analytics, administrative and other services in support of individual dental insurance products. Each company is a 25 percent shareholder of Encara.

**DD of Washington (DDWA)** – DDWA is a Washington non-profit corporation formed on July 22, 2009 to facilitate the formation of a holding company system. It is an affiliate of WDS through common control. (See Subsequent Events.)

### **Intercompany Agreements**

As of December 31, 2012, the Company had the following intercompany agreements in force:

#### **Intercompany Services Agreement – The Foundation**

The agreement between the Company and the Foundation became effective July 1, 2001. In exchange for monthly payments from the Foundation, WDS provides services such as human resources, payroll, office space, information systems, network support, accounting, and financial services.

#### **Intercompany Services Agreement - IOH**

The agreement between the Company and IOH became effective on December 1, 2006. In exchange for monthly payments from IOH, WDS provides services such as human resources, payroll, office space, information systems, network support, accounting, and financial services.

#### **Service Level Agreement - Healthentic**

The agreement between the Company and Healthentic became effective October, 2012. In exchange for monthly payments from Healthentic, WDS provides services such as human resources, payroll, office space, information systems, network support, accounting, and financial services.

#### **Services Agreement - Encara**

The agreement between the Company and Encara became effective on November 14, 2011. Encara provides administrative services relating to claims processing, marketing, and data analytics to WDS and three other Delta Dental companies.

## **MANAGEMENT AND CONTROL**

### **Ownership**

Pursuant to the Company's Bylaws effective December 9, 2011, any dentist licensed by the state of Washington to engage in the practice of dentistry in this state and who is actively practicing dentistry and who executes a service contract with the Company is eligible for membership in the Company. "Member" means a person holding membership in the Company. Ten percent of the members in good standing of record constitute a quorum at an annual meeting or a special meeting of the members. An annual meeting of the membership is required to be held each November. The affairs of the Company shall be managed by its Board of Directors (BOD), consisting of between nine and thirteen directors. There are three types of directors: independent (not from the membership); member directors

(member DDS elected by the membership); and one Ex Officio member. Independent directors as of January 1, 2012, shall comprise a majority.

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

The following individuals were directors as of December 31, 2012:

David Branch, DDS	Chairperson
Joanna Lohkamp	Vice Chairperson
Richard Albrecht	
George Beck, DDS	
Patrick Dineen	
James Dwyer	
Janis Harwell	
Jack Neal, DDS	
Gerald Phipps, DDS	
Allen Puckett	
Richard Schweikhardt, DDS	
Kristin Stred	
James Tune	

#### **Officers**

The following individuals were officers as of December 31, 2012:

James Dwyer	President and CEO
David Branch, DDS	Chair
George Beck, DDS	Treasurer
Jack Neal, DDS	Secretary

#### **Conflict of Interest**

The Company's policy requires that members of the BOD, senior management, and other key employees 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 during our review.

#### **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 and a retention of \$25,000 per loss. The coverage complies with the NAIC recommended minimum coverage.

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

##### 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 percent of their pre-tax salary to the plan, subject to statutory limitations. WDS will match the employee's elected deferral up to eight percent of the employee's compensation. The plan had an asset value of \$26,572,364 as of December 31, 2012 and the Company contributed \$1,309,244 to the plan in 2012.

#### Supplemental Executive Deferred Compensation Plan

WDS sponsors a supplemental executive retirement plan. It is a defined contribution plan in which all members of senior management are eligible to participate. The Company contributed \$466,190 to the plan during 2012. There was a total of \$1,637,889 in distributions to plan participants in 2012. The plan had total assets of \$603,497 at December 31, 2012.

#### CORPORATE RECORDS

The Articles of Incorporation, Bylaws, Certificate of Registration, and minutes of the BOD and its committees were reviewed for the period under examination. All BOD meetings were conducted with a quorum present. With the exceptions of Instructions No. 2 and No. 3, no other exceptions were noted.

#### ACTUARIAL REVIEW

The OIC actuary reviewed the Company's actuarial report, claims unpaid, and other claim liabilities as of December 31, 2012. 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(7) and (8), and SSAP No. 54(12), (13), (18) and (19), reviewing historical paid claims and loss ratios, checking the consistency of the incurred-paid data from the Company's system with the figures reported in the 2012 NAIC Annual Statement, and estimating claims unpaid for the valuation date of December 31, 2012.

The OIC actuary determined reserves were in compliance with statutory requirements, and except for the findings as noted in Instruction No. 3, the methods, assumptions, and methodologies used by the Company were appropriate.

#### REINSURANCE

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

#### INDEMNITY DEPOSITS

The Company maintained the following statutory deposit as of December 31, 2012:

<u>State</u>	<u>Type</u>	<u>Book Value</u>	<u>Fair Value</u>
Washington	US Treasury Notes	\$2,151,794	\$2,295,237
<b>Total</b>		<b><u>\$2,151,794</u></b>	<b><u>\$2,295,237</u></b>

#### ACCOUNTING RECORDS AND INFORMATION SYSTEM

The Company maintains its accounting records on a Generally Accepted Accounting Principles (GAAP) accrual basis of accounting and adjusts to Statutory Accounting Practices (SAP) basis for NAIC Annual Statement reporting. The Company is audited annually by the certified public accounting firm of KPMG,

LLP. The Company received an unqualified opinion 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. See Comments and Recommendations for the control deficiencies noted by the examiners.

The Company's IT environment was reviewed during the planning and testing phase of the examination, focusing on the following Control Objectives for Information and Related Technology (COBIT) Framework domains:

- Plan and Organize
- Acquire and Implement
- Deliver and Support
- Monitor and Evaluate

The IT systems and controls were evaluated to gain an understanding of general IT control risks and assess the effectiveness of these controls. Appropriate mitigating and internal controls have been implemented to reduce residual risk to appropriate levels. The Company has an effective Business Continuity Plan and Disaster Recovery Plan, which have been tested on a regular basis and include the availability of an alternate site.

### **SUBSEQUENT EVENTS**

#### **Reorganization**

On May 9, 2013, the reorganization of WDS was approved by the OIC. The primary objective of the reorganization was to segregate corporate activities by establishing a holding company that would oversee the dental benefit coverage business of WDS and public benefit activities within the group.

WDS completed a reverse merger with WDS Merger Sub, which was a subsidiary of DDWA and was temporarily established to facilitate the merger. After the reverse merger was completed, WDS Merger Sub became WDS. DDWA became the ultimate parent of all affiliates. As part of the approved reorganization plan, WDS changed its name to Delta Dental of Washington, and DDWA changed its name to Washington Dental Service. As of the examination report date, the holding company is currently known as Washington Dental Service and the health care service contractor is currently known as Delta Dental of Washington.

#### **Extraordinary Distribution**

On May 31, 2013, an extraordinary distribution valued at \$24,148,987 was transferred from WDS to the ultimate parent (now known as Washington Dental Service). The distribution consisted of WDS investments in the following subsidiaries: Washington Dental Service Foundation, LLC, Institute for Oral Health, LLC, and WDS Holdings, LLC and its subsidiary, Healthentic, Inc.

Subsequent to the distribution, the IRS revoked the holding company's tax-exempt status for failure to file tax returns. Due to the holding company's loss of its tax-exempt status, the Company retroactively unwound the extraordinary distribution and amended its NAIC Quarterly Statements for the second and third quarters of 2013.

### **FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS**

Except for the failure to report all management agreements, service contracts, and cost sharing agreements on the Form B annually, all other previous report instructions and comments have been corrected. (See Instruction No. 5.)

### **FINANCIAL STATEMENTS**

The following financial statements show the financial condition of Washington Dental Service as of December 31, 2012:

Assets, Liabilities, Capital and Surplus  
Statement of Revenue and Expenses  
Five Year Reconciliation of Surplus

**Washington Dental Service  
Assets, Liabilities, Capital and Surplus  
December 31, 2012**

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>
<b>ASSETS</b>			
Bonds	\$139,723,562	\$0	\$139,723,562
Stocks			
Common stocks	41,510,402	0	41,510,402
Real Estate			
Properties occupied by the company	4,968,325	0	4,968,325
Cash, cash equivalents, and short-term investments	12,708,442	0	12,708,442
Other invested assets	14,836,564	0	14,836,564
Receivables for securities	4,370	0	4,370
Investment income due and accrued	1,011,467	0	1,011,467
Premiums and considerations			
Uncollected premium and agents' balances in the course of collection	13,801,876	0	13,801,876
Amounts receivable relating to uninsured plans	2,659,355	0	2,659,355
Electronic data processing equipment and software	851,491	0	851,491
Receivables from parent, subsidiaries and affiliates	146,129	0	146,129
Health care and other amounts receivable	127,190	0	127,190
Aggregate write-ins for other than invested assets	603,497	0	603,497
<b>Total assets</b>	<u><b>\$232,952,670</b></u>	<u><b>\$0</b></u>	<u><b>\$232,952,670</b></u>
<b>LIABILITIES, CAPITAL AND SURPLUS</b>			
Claims unpaid	\$13,935,000	\$0	\$13,935,000
Unpaid claim adjustment expenses	400,949	0	400,949
Aggregate health policy reserves	18,743,935	0	18,743,935
Premium received in advance	4,154,974	0	4,154,974
General expenses due or accrued	10,140,244	0	10,140,244
Amounts withheld or retained for the account of others	140,465	0	140,465
Amounts due to parent, subsidiaries and affiliates	166,331	0	166,331
Payable for securities	-	0	0
Aggregate write-ins for other liabilities	603,497	0	603,497
<b>Total liabilities</b>	<u><b>\$48,285,395</b></u>	<u><b>0</b></u>	<u><b>\$48,285,395</b></u>
Unassigned fund (surplus)	184,667,275	0	184,667,275
<b>Total capital and surplus</b>	<u><b>\$184,667,275</b></u>	<u><b>0</b></u>	<u><b>\$184,667,275</b></u>
<b>Total liabilities, capital and surplus</b>	<u><b>\$232,952,670</b></u>	<u><b>\$0</b></u>	<u><b>\$232,952,670</b></u>

**Washington Dental Service  
Statement of Revenue and Expenses  
For the Year Ended December 31, 2012**

	BALANCE PER COMPANY	EXAMINATION ADJUSTMENTS	BALANCE PER EXAMINATION
Member months	9,989,281	0	9,989,281
Net Premium Income	\$388,054,803	\$0	\$388,054,803
Change in unearned premium reserves and reserve for rate credits	(619,234)	0	(619,234)
<b>Total revenues</b>	<b>387,435,569</b>	<b>0</b>	<b>387,435,569</b>
<b>Hospital and Medical:</b>			
Other professional services	329,311,928	0	329,311,928
Subtotal	329,311,928	0	329,311,928
<b>Less:</b>			
Net reinsurance recoveries	0	0	0
Total hospital and medical	329,311,928	0	329,311,928
Claims adjustment expenses	16,303,315	0	16,303,315
General administrative expenses	21,153,058	0	21,153,058
Total underwriting deductions	366,768,301	0	366,768,301
Net underwriting gain or (loss)	20,667,268	0	20,667,268
Net investment income earned	4,608,384	0	4,608,384
Net realized capital gains (losses) less capital gains tax	2,021,471	0	2,021,471
Net investment gains (losses)	6,629,855	0	6,629,855
Aggregate write-ins for other income or	124,759	0	124,759
Net income or (loss) after capital gains tax and before all other federal income taxes	27,421,882	0	27,421,882
Federal and foreign income taxes Incurred	0	0	0
<b>Net income or (loss)</b>	<b>\$27,421,882</b>	<b>\$0</b>	<b>\$27,421,882</b>
<b><u>CAPITAL AND SURPLUS ACCOUNT</u></b>			
Capital and surplus prior reporting year	\$160,990,013	\$0	\$160,990,013
Net income or (loss)	27,421,882	0	27,421,882
Change in net unrealized capital gains (losses) less capital gains tax	(3,755,099)	0	(3,755,099)
Change in nonadmitted assets	(460,459)	0	(460,459)
Aggregate write-ins for gains or (losses) in	470,938	0	470,938
Net change in capital & surplus	23,677,262	0	23,677,262
<b>Capital and surplus end of reporting period</b>	<b>\$184,667,275</b>	<b>\$0</b>	<b>\$184,667,275</b>

**Washington Dental Service  
Five Year Reconciliation of Surplus  
For the Years Ended December 31,**

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>Capital and surplus prior reporting year</b>	<u>\$160,990,013</u>	<u>\$145,682,400</u>	<u>\$130,317,582</u>	<u>\$104,331,198</u>	<u>\$122,008,780</u>
Net income or (loss)	27,421,882	20,518,537	21,353,583	13,013,127	20,089,548
Change in net unrealized capital gains (losses) less capital gains tax	(3,755,099)	(7,582,568)	(3,189,668)	13,543,429	(30,947,203)
Change in nonadmitted assets	(460,459)	2,859,318	(3,722,184)	4,573,938	(179,407)
Aggregate write-ins for gains or (losses) in surplus	<u>470,938</u>	<u>(487,674)</u>	<u>923,087</u>	<u>(5,144,110)</u>	<u>(6,640,520)</u>
Net change in capital & surplus	<u>23,677,262</u>	<u>15,307,613</u>	<u>15,364,818</u>	<u>25,986,384</u>	<u>(17,677,582)</u>
<b>Capital and surplus end of reporting period</b>	<u><b>\$184,667,275</b></u>	<u><b>\$160,990,013</b></u>	<u><b>\$145,682,400</b></u>	<u><b>\$130,317,582</b></u>	<u><b>\$104,331,198</b></u>

**NOTES TO THE FINANCIAL STATEMENTS**

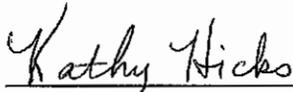
There are no examination adjustments and no special consents or permitted practices as of December 31, 2012.

**ACKNOWLEDGMENT**

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

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner; John Jacobson, AFE, CISA, AES, Automated Examination Specialist; Timothy F. Hays, CPA, JD, Investment Specialist; Scott Fitzpatrick, FSA, MAAA, Actuary; Adrienne Sulaiman, CPA, CFE, MHP, Health Field Supervising Examiner; R. Christine Berch, CPA, Financial Examiner; Keith Henderson, CPA, Financial Examiner; Tony Quach, AFE, Financial Examiner; all from the Washington State Office of the Insurance Commissioner, participated in the examination and in the preparation of this report.

Respectfully submitted,



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Kathy Hicks, CPA, CFE  
Examiner-in-Charge  
State of Washington

