

***CERTIFICATE***

I, KEN SELZER, Commissioner of Insurance of Kansas, do hereby certify that the following and hereto attached is a true copy of

REPORT OF EXAMINATION  
OF  
DELTA DENTAL OF KANSAS INC.  
1619 N. WATERFRONT PARKWAY  
WICHITA, KS 67206  
AS OF  
DECEMBER 31, 2015

the original of which is now on file and a matter of record in this office.

*In Witness Whereof*, I, KEN SELZER, Commissioner of Insurance of Kansas, have hereto affixed by signature and the seal of the Commissioner of Insurance, in the city of Topeka, Kansas this 1<sup>st</sup> day of September, 2017



A handwritten signature in black ink that reads "Ken Selzer".

\_\_\_\_\_  
Commissioner of Insurance

**FILED**  
**SEP -1 2017**  
**KEN SELZER**  
**Commissioner of Insurance**

**REPORT OF EXAMINATION**  
**ON**  
**DELTA DENTAL OF KANSAS, INC.**  
**1619 N. WATERFRONT PARKWAY**  
**WICHITA, KANSAS 67206**  
**AS OF**  
**DECEMBER 31, 2015**

**FILED**  
**SEP - 1 2017**  
**KEN SELZER**  
**Commissioner of Insurance**

## TABLE OF CONTENTS

<u>SUBJECT</u>	<u>PAGE NUMBER</u>
SALUTATION .....	1
SCOPE OF EXAMINATION.....	1
Independent Audit Reports.....	2
SUMMARY OF SIGNIFICANT FINDINGS.....	3
HISTORY .....	3
General .....	3
Capital Stock.....	3
Dividends to Subscribers.....	4
CORPORATE RECORDS .....	4
MANAGEMENT AND CONTROL .....	4
Directors.....	4
Committees.....	6
Officers.....	6
Conflict of Interest .....	7
AFFILIATED COMPANIES .....	7
Organization Chart.....	7
Intercompany/Cost Sharing Agreements.....	8
FIDELITY BOND AND OTHER INSURANCE.....	9
PENSION AND INSURANCE PLANS .....	9
TERRITORY AND PLAN OF OPERATION .....	10
FIVE-YEAR HISTORICAL .....	10
UNCLAIMED PROPERTY .....	11
FINANCIAL STATEMENTS .....	11
COMMENTS ON FINANCIAL STATEMENTS.....	16
SUBSEQUENT EVENTS.....	16
SUMMARY OF RECOMMENDATIONS .....	16
CONCLUSION.....	17

Wichita, Kansas  
June 12, 2017

Honorable Ken Selzer, Commissioner  
Kansas Insurance Department  
420 S.W. 9th Street  
Topeka, Kansas 66612-1678

Dear Commissioner:

Pursuant to K.S.A. 40-222 – *Examination of Condition of Company*, and in accordance with your authorization, an examination has been conducted of the financial condition and business affairs of

**DELTA DENTAL OF KANSAS, INC.  
1619 N. WATERFRONT PARKWAY  
WICHITA, KANSAS 67206**

hereinafter referred to as the “Company” or “DDKS”. The following report on such examination is respectfully submitted.

#### **SCOPE OF EXAMINATION**

This full-scope multi-state financial examination was conducted in accordance with the rules, regulations and directives of the Kansas Insurance Department (Department) and the observed guidelines and procedures contained in the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* (Handbook). The Handbook requires the examiners plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company. This is done by assessing the Company’s corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks.

During the course of the examination, the affairs and activities of DDKS were reviewed and analyzed to determine their compliance with applicable Kansas statutes, regulations and directives. The examiners reviewed the Company's adherence to the provisions of its articles of incorporation, bylaws and certificates of authority and assessed the principles used and significant estimates made by management. The overall financial statement presentation was evaluated, as well as management's compliance with statutory accounting principles and annual statement instructions when applicable to domestic state regulation. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

The last examination was performed by the Department as of December 31, 2011. This statutory examination covers the four-year period from January 1, 2012, through December 31, 2015, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination. The examination was performed in concurrence with the Company's wholly-owned subsidiary, Surency Life & Health Insurance Company.

### **Independent Audit Reports**

Financial statements of DDKS were audited by BKD, LLP for the years ending December 31, 2012, through December 31, 2015. In each of the years under examination, the auditors concluded that the statutory financial statements of the Company, in all material respects, presented fairly the admitted assets, liabilities, capital and surplus, statement of income and surplus and cash flows in conformity with the accounting practices prescribed or permitted by the Department.

The independent auditor's work papers were reviewed and analyzed by the examiners. Significant reliance was placed on select work papers during the course of this examination.

### **SUMMARY OF SIGNIFICANT FINDINGS**

No significant findings were noted during the course of the examination.

### **HISTORY**

#### **General**

DDKS was incorporated in the State of Kansas on August 4, 1972, under the provisions of K.S.A. 40-19a01 et seq. – *Nonprofit Dental Service Corporation Act*. The Company received its certificate of authority from the Department on January 26, 1973, under the name Delta Dental Plan of Kansas, Inc. and commenced business on that date. The name was later changed to Delta Dental of Kansas, Inc. in 2005.

The Company was organized for the purpose of entering into contracts with participating dentists to provide or administer professional services to subscribers on such basis as may be designated in the Company's contracts with participating groups, individuals, or governmental agencies. The Company's charter provides for a perpetual existence.

The Company's appointed actuary changed as of December 31, 2014, from Ruth Ann Woodley, Ruark Consulting, LLC to Anne L. Treankler, Delta Dental of Wisconsin.

#### **Capital Stock**

The Company is a non-profit dental service corporation and is not authorized to issue common capital stock.

### **Dividends to Subscribers**

Pursuant to K.S.A. 40-19a12 - *Surplus; How Distributed*, any surplus accumulated by a corporation subject to this act beyond a reserve fund equal to the amount disbursed during the preceding year for care received by subscribers and beyond the reserves required by K.S.A. 40-19a08 – *Subscription Charges*, shall within one year after its accumulation be distributed to subscribers either in the form of increased benefits or rebate of subscription charges. As the Company's surplus level, in each of the years under examination, was not greater than (a) the amount paid to subscribers in benefits in the preceding year, plus (b) an adequate reserve; no dividends were declared or paid.

### **CORPORATE RECORDS**

The minutes of the membership and Board of Directors' (Board) meetings support adequate approval for transactions and events of the Company during the period under review and subsequent to December 31, 2015.

### **MANAGEMENT AND CONTROL**

#### **Directors**

DDKS's bylaws consist of thirteen articles that provide the framework for the operation, management and control of a non-profit dental service company. The Company is controlled by its membership made up of eligible Kansas dentists opting to become contracted providers, and managed by a Board of Directors, four of whom are elected by the membership, two appointed by the Governor of Kansas (Governor) and four appointed by the Kansas Insurance Commissioner (Commissioner). Each Director serves a term of four years upon election or appointment. If an appointed position, either by the Governor or the Commissioner becomes vacant before the term has

expired, a new Director will be appointed by the current Governor or Commissioner, based upon whichever office had made the original appointment, to fill the unexpired term. If an elected position becomes vacant before the expiration of its term, the Board members who are participating dentists will elect a person within the membership to serve until the next annual meeting of the members. At the next annual meeting, the membership of the Company will elect a Director to serve the remaining term. The exhibit below contains a listing of Directors, their principal occupations, elected or appointed status, and the expiration of each Director's term as of December 31, 2015.

<b><u>Name</u></b>	<b><u>Principal Occupation</u></b>	<b><u>Nomination</u></b>	<b><u>Term Expires</u></b>
Dr. Patrick Moriarty Lawrence, Kansas	Dentist Self-employed	Elected by Membership	2015
Dr. Alan Marcotte Winfield, Kansas	Dentist Self-employed	Elected by Membership	2016
Dr. Brick Scheer Wichita, Kansas	Dentist Self-employed	Elected by Membership	2017
Bruce Witt Maize, Kansas	Director, Government Relations Via Christi Health	Appointed by Governor	2017
Gary Yager Topeka, Kansas	President Vision Bank	Appointed by Commissioner	2017
Nancy G. Zogleman Caldwell, Kansas	Attorney Capitol Consulting	Appointed by Commissioner	2017
Angela McClure Lawrence, Kansas	Account Manager Gene Fritzel Construction	Appointed by Commissioner	2018
Mark Phillips Wichita, Kansas	Private Investor Self-employed	Appointed by Governor	2018
Dr. Lucynda Raben Topeka, Kansas	Dentist Self-employed	Elected by Membership	2018
Ruth Teichman Stafford, Kansas	Farming Self-employed	Appointed by Commissioner	2018



## **Committees**

DDKS's bylaws provide for the Board to have exclusive power and authority to manage the affairs of the Company and may delegate reasonable and necessary powers to committees to carry out the corporate purpose. As of December 31, 2015, the following committees had been established by the Board:

### **Administrative Committee**

Dr. Patrick Moriarty, Chairperson  
Dr. Alan Marcotte  
Dr. Lucynda Raben  
Dr. Brick Scheer  
Mr. Bruce Witt

### **Finance Committee**

Mr. Gary Yager, Chairperson  
Mr. Mark Philips  
Dr. Lucynda Raben  
Ms. Ruth Teichman

### **Governance Committee**

Dr. Brick Scheer, Chairperson  
Ms. Angela McClure  
Dr. Patrick Moriarty  
Ms. Ruth Teichman

### **Executive Committee**

Ms. Nancy Zogleman, Chairperson  
Dr. Alan Marcotte  
Ms. Angela McClure  
Mr. Bruce Witt  
Mr. Gary Yager

### **Charitable Giving Committee**

Mr. Bruce Witt, Chairperson  
Ms. Angela McClure  
Mr. Mark Philips  
Dr. Lucynda Raben

## **Officers**

Pursuant to the bylaws, the required officers of the Company are a Chairman of the Board, Vice-Chairman of the Board, Secretary and Treasurer. The Board may also elect a President, who does not need to be a member of the Board, or other officers as deemed necessary. The officers listed below were elected or appointed as of December 31, 2015:

<u>Name</u>	<u>Position</u>
Ms. Nancy Zogleman	Chairman of the Board
Dr. Alan Marcotte	Vice-Chairman of the Board
Michael Herbert	President and Chief Executive Officer
Nancy Umholtz	Secretary
Michael Ellis	Chief Financial Officer and Treasurer
Molly Edwards	Chief Operations Officer
Dean A. Newton	Managing Director and Executive VP

### **Conflict of Interest**

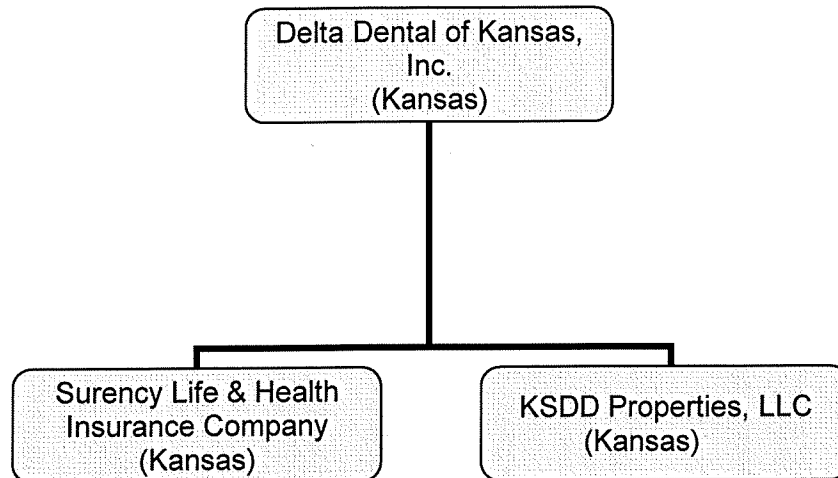
The Company has instituted a formal procedure for reporting to the Board any possible conflicts of interest on the part of its directors, officers and employees concerning their activities outside the Company, and their official duties within the Company. No conflicts of interest were noted during the examination.

### **AFFILIATED COMPANIES**

K.S.A. 40-3301 et seq. - *Insurance Holding Companies*, requires a domestic insurer that is part of an insurance holding company system to file appropriate registration statements with the Commissioner of Insurance. The Company has submitted Forms "B" and "C" registration statements to the Department for each of the years under examination. The review of the registration statements indicated that the Company is properly reporting items and events as required by statute.

### **Organization Chart**

The following organizational chart illustrates the identities and intercompany relationships among insurance and non-insurance companies, and the controlling entity thereof, as of December 31, 2015:



Delta Dental of Kansas, Inc. owns 100% of the outstanding shares of Surency Life & Health Insurance Company as of December 31, 2015, and was the sole owner of KSDD Properties, LLC, a single member entity limited liability company.

The Company was the major contributor to the Delta Dental of Kansas Foundation during the Examination period. However, the Delta Dental of Kansas Foundation was dissolved as of December 31, 2014.

#### **Intercompany/Cost Sharing Agreements**

The Company provides administrative services to Surency Life & Health Insurance Company (SLHI) under a management services agreement entered into on July 1, 2008. The management services provided by DDKS for SLHI include customer services, sales and marketing services, financial services, medical management services, provider relations services, and facilities and occupancy services. Through written agreements DDKS received from SLHI the following expense reimbursements:

<b>SERVICES PROVIDED</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Real Property License and Expense Sharing	\$165,347	\$136,950	\$152,316	\$128,609
Common Paymaster Agreement	920,233	651,320	525,985	489,374
Additional Expense Reimbursements	56,039	28,707	14,151	28,877
<b>TOTAL</b>	<b>\$1,141,619</b>	<b>\$816,977</b>	<b>\$692,452</b>	<b>\$646,860</b>

### **FIDELITY BOND AND OTHER INSURANCE**

Pursuant to K.S.A. 40-207 – *Secretary and Certain Officers to Give Bond*, the Company is required to maintain a financial institution bond sufficient to cover all officers and employees who handle funds and securities on behalf of the Company. The bond provides a single loss limit of liability of \$5 million with a single loss deductible of \$30,000. The bond coverage exceeds the minimum amount recommended by the NAIC *Financial Conditions Examiners Handbook*.

Other insurance policies were reviewed and appear adequate for the needs of the Company.

### **PENSION AND INSURANCE PLANS**

Eligible Company employees are covered by a qualified defined contribution plan (401(k) plan) sponsored by the Company. The Company provides a 50% match of the eligible employee's contribution up to a maximum of 3% of eligible employee's salary or wage.

The Company also has a second defined contribution plan in which a non-matched contribution is made into each eligible employee's 401(k) plan. The Board of Directors determines the amount of additional, non-matched contribution on an annual basis. The minimum contribution each year is 5% of eligible salaries and wages with a maximum contribution of 25%.

DDKS also provides healthcare benefits for active employees.

**TERRITORY AND PLAN OF OPERATION**

As of December 31, 2015, the Company is authorized to transact business as a non-profit dental service corporation in the State of Kansas and a pre-paid dental plan in the State of Missouri. The Company enters into contracts with participating dentists to provide or administer professional services to subscribers on such basis as may be designated in the Company's contracts with participating groups, individuals, or governmental agencies. The Company also offers administrative service contracts (ASC) to self-insured employee benefit plans and point of service plans for which it receives a predetermined administrative fee.

**FIVE-YEAR HISTORICAL**

The following exhibit shows the [REDACTED] financial growth of the Company (in thousands) for the period of December 31, 2012 through December 31, 2015. The financial growth amounts were obtained from annual statements filed by the Company.

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
[REDACTED]					
	(in thousands)				
Admitted Assets	\$ 41,721	\$ 45,474	\$ 50,889	\$ 54,605	\$ 58,788
Liabilities	6,128	6,805	8,169	7,790	7,196
Capital and Surplus	35,594	38,669	42,720	46,815	51,593
Net Underwriting Gain/(Loss)	1,729	1,233	2,457	2,890	1,971
Net Income	3,495	2,851	3,622	4,985	4,151
Net Premiums Written	69,554	75,899	78,214	95,603	103,539

### **UNCLAIMED PROPERTY**

A review of Company documents has indicated there are formal procedures in place to manage and report unclaimed property. For the period under examination, it was determined that unclaimed property reports have been submitted as required.

### **FINANCIAL STATEMENTS**

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2015. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

**DELTA DENTAL OF KANSAS, INC.**  
**ANALYSIS OF ASSETS**  
**AS OF DECEMBER 31, 2015**

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$ 31,407,443	\$ 2,800,000	\$ 28,607,443
Common stocks	17,871,264		17,871,264
Real Estate	2,563,301		2,563,301
Cash and short-term investments	3,052,567		3,052,567
Investment income due & accrued	284,765		284,765
Uncollected premiums and agents' balances in the course of collection	1,283,035	13,207	1,269,828
Amounts receivable relating to uninsured plans	4,885,752		4,885,752
Electronic data processing equipment	253,430		253,430
Furniture and equipment	682,009	682,009	-
Receivables from parent, subsidiaries and affiliates	226,519	226,519	-
Aggregate write-ins for other than invested assets	487,904	487,904	-
Totals	<u>\$ 62,997,989</u>	<u>\$ 4,209,639</u>	<u>\$ 58,788,350</u>

**DELTA DENTAL OF KANSAS, INC.  
LIABILITIES, SURPLUS AND OTHER FUNDS  
AS OF DECEMBER 31, 2015**

	<u>Covered</u>	<u>Uncovered</u>	<u>Total</u>
Claims unpaid		\$ 2,913,000	\$ 2,913,000
Unpaid claims adjustment expenses	55,000		55,000
Aggregate health policy reserves	271,772		271,772
Premiums received in advance	141,147		141,147
General expenses due or accrued	3,134,925		3,134,925
Amounts withheld or retained for the account of others	6,502		6,502
Remittances and items not allocated	1,481		1,481
Amounts due to parent, subsidiaries and affiliates	100,000		100,000
Liability for amounts held under uninsured plans	571,700		571,700
Total liabilities	<u>\$ 4,282,527</u>	<u>\$ 2,913,000</u>	<u>7,195,527</u>
Aggregate write-ins for special surplus funds			480,000
Common capital stock			-
Unassigned funds (surplus)			<u>51,112,823</u>
Total capital and surplus			<u>51,592,823</u>
Total liabilities, capital and surplus			<u>\$ 58,788,350</u>



**DELTA DENTAL OF KANSAS, INC.**  
**STATEMENT OF REVENUE AND EXPENSES**  
**FOR THE YEAR-ENDED DECEMBER 31, 2015**

	<b>Total</b>
Member Months	<u>3,319,932</u>
Net premium income	<u>\$ 103,538,898</u>
Total revenues	<u>103,538,898</u>
<b>Hospital and Medical:</b>	
Other professional services	<u>69,135,018</u>
Subtotal	<u>69,135,018</u>
<b>Less:</b>	
Net reinsurance recoveries	<u>(16,250,587)</u>
Total hospital and medical	85,385,605
Claims adjustment expenses	1,479,094
General administrative expenses	<u>14,703,280</u>
Total underwriting deductions	<u>101,567,979</u>
Net underwriting gain or (loss)	1,970,919
Net investment income earned	1,636,687
Net realized capital gains (losses)	<u>535,071</u>
Net investment gains (losses)	2,171,758
Aggregate write-ins for other income or expenses	<u>8,388</u>
Net income or (loss) after capital gains tax and before all other federal income taxes	4,151,065
Federal and foreign income taxes incurred	<u>-</u>
Net income	<u><u>\$ 4,151,065</u></u>

**DELTA DENTAL OF KANSAS, INC.  
CAPITAL AND SURPLUS ACCOUNT  
FOR THE YEAR-ENDED DECEMBER 31, 2015**

Capital and surplus prior reporting year	<u>\$</u>	46,815,297
Net income or (loss)		4,151,065
Change in net unrealized capital gains (losses)		(1,360,867)
Change in nonadmitted assets		972,996
Cumulative effect of changes in accounting principles		1,014,332
Net change in capital and surplus		<u>4,777,526</u>
Capital and surplus end of year	<u>\$</u>	<u>51,592,823</u>

**DELTA DENTAL OF KANSAS, INC.  
CAPITAL AND SURPLUS ACCOUNT  
RECONCILIATION OF CAPITAL AND SURPLUS SINCE LAST EXAMINATION**

Capital and surplus, December 31, 2011			<u>\$</u>	35,593,540
Net income	2012	2,851,361		
	2013	3,621,872		
	2014	4,985,330		
	2015	<u>4,151,065</u>		15,609,628
Change in net unrealized capital gains or (losses)	2012	123,350		
	2013	1,455,375		
	2014	(147,761)		
	2015	<u>(1,360,867)</u>		70,097
Change in nonadmitted assets and related items	2012	100,736		
	2013	(1,026,345)		
	2014	(742,161)		
	2015	<u>972,996</u>		(694,774)
Cumulative effect of changes in accounting principles	2012	-		
	2013	-		
	2014	-		
	2015	<u>1,014,332</u>		<u>1,014,332</u>
Change in capital and surplus				15,999,283
Capital and surplus, December 31, 2015			<u>\$</u>	<u>51,592,823</u>

### **COMMENTS ON FINANCIAL STATEMENTS**

No adjustments were made to surplus as a result of this examination. The capital and surplus of the Company, as of December 31, 2015, was \$51,592,823, which is the same amount, reported by the Company in its 2015 filed Annual Statement. There were no significant or material findings resulting from the examination that warranted inclusion in the report of examination.

### **SUBSEQUENT EVENTS**

DDKS informed the Department on October 24, 2016 regarding the change of their CPA firm from BKD, LLP to Eide Bailly LLP for the year ending December 31, 2016. During the December 10, 2016 Board of Directors approved the dissolution of KSDD Properties, LLC.

### **SUMMARY OF RECOMMENDATIONS**

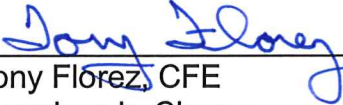
There were no findings or recommendations identified as a result of this examination that warranted inclusion in the report of examination.

## CONCLUSION

The assistance and cooperation by the officers and employees of Delta Dental of Kansas, Inc. during the course of this examination is hereby acknowledged and appreciated.

In addition to the undersigned, Leon Black, Jr. CFE, a financial examiner, and Shane Mead, CISA, CISM, CRISC, an information systems examiner, and each representing the Department, participated on this examination.

Respectfully submitted,

  
\_\_\_\_\_  
Tony Flores, CFE  
Examiner-in-Charge

EXAMINER'S AFFIDAVIT AS TO STANDARDS AND PROCEDURES USED IN AN EXAMINATION

State of Kansas

County of Shawnee

Tony Florez being duly sworn, states as follows:

1. I have authority to represent the Kansas Insurance Department in the examination of Delta Dental of Kansas, Inc.
2. The Kansas Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.
3. I have reviewed the examination work papers and examination report, and the examination of Delta Dental of Kansas, Inc. was performed in a manner consistent with the standards and procedures required by K.S.A. 40-222.

The affiant says nothing further.

Tony Florez  
Examiner's Signature

Subscribed and sworn before me by Tony Florez on  
this 19 day of July, 2017.

(SEAL)



Dale Hubbell  
Notary Public

My commission expires 3/19/2019  
(date)