

REPORT ON EXAMINATION AS TO THE CONDITION OF

ATLANTIC SOUTHERN DENTAL FOUNDATION

PHILADELPHIA, PA 19106

AS AT DECEMBER 31, 2012

N.A.I.C. GROUP CODE 0000

N.A.I.C. COMPANY CODE 11217

Filed

June 25, 2014

**Commissioner
Department of Banking &
Insurance**

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State of New Jersey
DEPARTMENT OF BANKING AND INSURANCE
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Commissioner

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June 6, 2014

Honorable Kenneth E. Kobylowski
Commissioner of Banking and Insurance
State of New Jersey
Trenton, New Jersey 08625

Commissioner:

In accordance with the authority vested in you by the Revised Statutes of New Jersey, an examination has been made of the assets and liabilities, method of conducting business and other affairs of the:

Atlantic Southern Dental Foundation
PHILADELPHIA, PA 19106
N.A.I.C. GROUP CODE 0000
N.A.I.C. COMPANY CODE 11217

a domestic insurer duly authorized to transact the business of insurance in the State of New Jersey. Hereinafter, Atlantic Southern Dental Foundation will be referred to in this report as the "Company" or "ASDF".

SCOPE OF EXAMINATION

The New Jersey Department of Banking and Insurance, hereinafter referred to as “NJDOBI”, has performed a full scope risk focused examination of Atlantic Southern Dental Foundation.

This risk focused examination was called by the Commissioner of Banking and Insurance of the State of New Jersey pursuant to the authority granted by Section 17:23-22 of the New Jersey Revised Statutes.

The examination was made as at December 31, 2012, and addressed the five-year period from December 31, 2007, the date of the last examination. During this five-year period under examination, the Company’s assets increased from \$2,706,734 to \$4,641,033. Liabilities increased from \$896,340 to \$1,238,965 and its capital and surplus increased from \$1,810,394 to \$3,402,068.

NJDOBI conducted our examination in accordance with the 2012 edition of the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (the “NAIC Handbook”). The NAIC Handbook requires that NJDOBI plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company. In order to meet these objectives, NJDOBI obtained information regarding the Company’s corporate governance environment, identified and assessed inherent risks to which it is exposed and evaluated its system of internal controls and procedures used to mitigate those risks identified. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

According to the NAIC Handbook, “One of the increased benefits of the enhanced risk focused approach is to include ... consideration of other than financial risks that could impact the insurer’s future solvency. By utilizing the enhanced approach, the examiner reviewed the “financial” and “enterprise” risks that existed at the examination “as of” date and will be positioned to assess “financial” and “enterprise” risks that extend or commence during the time the examination was conducted and “prospective” risks which are anticipated to arise or extend past the point of examination completion. Using this approach, examiners will be better positioned to make recommendations for appropriate future supervisory plans (i.e., earlier statutory exams, limited-scope exams, key areas for financial analysts to monitor, etc.) for each insurer.”

The Company has adopted an Enterprise Risk Management (“ERM”) framework for proactively addressing and mitigating risks, including prospective business risks. The Company’s Corporate Governance was found to be effective, contributing to its entity level (or monitoring level) controls, including prospective risks.

For years 2008, 2009, 2010, 2011 and 2012, the Certified Public Accounting (CPA) firm of Mayer Hoffman McCann P.C. provided an unqualified audit opinion on the fair presentation

of the Company's year-end financial statements based on statutory accounting principles. Relevant work performed by the CPA firm, during its annual audit of the Company, was reviewed during the examination and incorporated into the examination workpapers.

All accounts and activities of the Company were considered in accordance with the risk focused examination process. The examination report only addresses regulatory information revealed by the examination process in accordance with the NAIC Handbook. Balance sheet amounts for year end 2012 were tested substantively. Balance sheet amounts for year end 2012 were also reviewed to be in accordance with New Jersey Statutes and Regulations for Health Insurance Companies and relevant NAIC Accounting Practices and Procedures SSAP's.

COMPLIANCE WITH PRIOR EXAMINATION REPORT RECOMMENDATIONS

Territory and Plan of Operation

2007 Examination Recommendation:

It is recommended the Company revise its provider agreements to conform with the new (loss payment) methodology in accordance with N.J.A.C. 11:10-1.5(b).

Company Response:

Revised provider agreements, that conform to the new (loss payment) methodology, were submitted on 3/15/2011 to Timothy Costello with the Department.

2012 Examination Finding:

The Company has complied with this recommendation.

Policy on Conflict of Interest

2007 Examination Recommendation:

It is recommended ASDF develop a "Code of Ethics Policy" which maintains at a minimum the following standards:

- **Honest & Ethical Conduct in all business and personal relationships**
- **Proper disclosure and reporting of financial, business and other periodic reports filed with governing authorities**
- **Compliance with applicable governmental laws, rules and regulations**
- **Internal procedures developed for the reporting and accountability of the standard maintained within the code of ethics policy**

Company Response:

The Conflict of Interest Policy was sent to the Department on March 24, 2011.

2012 Examination Finding:

The Company has not complied with this recommendation.

Policy on Conflict of Interest

2007 Examination Recommendation:

The Company should also ensure all Officers and Directors complete a Conflict of Interest statement on an annual basis and provide for the independent review (such as legal counsel) of those statements.

Company Response:

The Conflict of Interest Policy was sent to the Department on March 24, 2011.

2012 Examination Finding:

The Company has not complied with this recommendation.

Cash on Hand and on Deposit

2007 Examination Recommendation:

It is recommended ASDF develop guidelines for the escheatment of funds to the State of New Jersey and report any escheatable funds to the State of New Jersey in accordance with N.J.S.A. 46:30.

Company Response:

The Company indicated in their letter dated May 28, 2010 that they had implemented an escheat policy to comply with this recommendation. The following is the escheat policy:

1. ASDF will review its list of outstanding checks on a monthly basis.
2. If a check remains on ASDF's outstanding check list for more than two months, ASDF will attempt to contact the payee to determine if the check was received and to alert the payee to determine if the check was received and to alert the payee that the check is outstanding.
3. If the original check was never received, a stop payment order will be placed on the check and a replacement check will be issued in its place.
4. If attempts to contact the payee are unsuccessful, and the check remains outstanding for more than three years from the check date, then it will be presumed abandoned property. ASDF will file an escheat report for all abandoned property in the amount of \$50 or more with the State of New Jersey that will include as much identifiable information about the payee as possible.

2012 Examination Finding:

The Company has complied with this recommendation.

Claims Unpaid

2007 Examination Recommendation:

It is recommended the Company evaluate its reserving methodology to ensure loss reserves are adequately stated in all future financial filings.

Company Response:

ASDF noted in their letter of May 28, 2010 that they review their reserving methodology periodically to ensure that loss reserves are adequately stated in its financial filings.

2012 Examination Finding:

The Company has not complied with this recommendation.

HISTORY AND KIND OF BUSINESS

The Atlantic Southern Dental Foundation is a Partnership formed under a Joint Venture agreement dated December 23, 1983, between three equal partners - Atlantic Dental Foundation, Inc., Southern Dental Foundation, Inc. and Dental Benefit Management, Inc. The Partnership is owned by the participating dentists in both Foundations and Dental Benefit Management, Inc.

The Atlantic Southern Dental Foundation (Partnership) was incorporated on March 21, 1984 as a dental plan organization pursuant to N.J.S.A. 17:48D-1. The Atlantic Southern Dental Foundation contracts with organizations (sponsors) to provide dental services to the sponsor's eligible employees. The Foundation will receive monthly premiums based on a contractual fixed price with its sponsors. The Atlantic Dental Foundation, Southern Dental Foundation and the Dental Benefit Management, Inc. each maintain separate Board of Directors and two representatives of all three entities comprise the six members Management Committee which manages the affairs of the Atlantic Southern Dental Foundation.

On September 10, 2003, a resolution was passed by the Management Committee approving the formation and funding of a dental service corporation pursuant to N.J.S.A. 17:48C-1. The Management Committee further resolved to authorize the officers of Atlantic Southern Dental Foundation to take all steps to create and form the organization and to invest \$25,000 in this endeavor. In 2004, Dental Benefit Management, Inc. agreed to advance funds to Dental Practice Association of New Jersey, Inc. in the amount of \$25,000 in the form of a surplus note to help the entity meet its minimum capital requirements. At the same time a Joint Cooperation Agreement was executed that agreed to provide an additional \$100,000 to fund the Dental Practice Association of New Jersey, Inc. as required by N.J.S.A. 17:48C-25 and during 2005 the Partnership advanced funds to the Dental Practice Association of New Jersey, Inc. in the form of a \$100,000 surplus note. The notes bear interest at 1% above prime (3.25% as of December 31, 2012). The repayment of the notes and or accrued interest shall be paid only if approved by the NJDOBI. The Notes were endorsed by the owner of Dental Benefit Management, Inc. and by the Management Committee of Atlantic Southern Dental Foundation.

ASDF is licensed to write business within the confines of New Jersey and began writing business in Maryland with the purchase of the assets and assumption of the liabilities of the Dental Practice Association of Maryland under a January 1, 2004 Transfer Agreement. Under the Agreement, if the Company elects to cease writing business in Maryland, it is required to donate one-half of any remaining surplus to a charity associated with Maryland

dentistry chosen by the Maryland dentists participating in the Benecare (Dental Benefit Management, Inc.) program.

The registered office of the Company is located at 3430 Atlantic Avenue, Atlantic City, New Jersey 08401. The mail address and primary location of books and records is 615 Chestnut Street, Suite 1001, Philadelphia, PA 19106. The registered agent for whom due process may be served is Robert P. Lang, Esquire.

STATUTORY DEPOSIT

As of December 31, 2012, the Company in accordance with N.J.A.C. 11:10-1.8(a) had an annual statement value of \$52,192 for New Jersey statutory deposit as at December 31, 2012.

Additionally as of December 31, 2012, the Company, in accordance with Maryland Insurance Administration Section 14-404(b), had an annual statement value of \$100,000 for a statutory deposit with the State of Maryland.

TERRITORY AND PLAN OF OPERATION

ASDF is licensed to write business within the confines of New Jersey and Maryland. Please find below the membership summary of operations for the examination period:

Membership Summary of Operations

Membership	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Group Dental Plans	<u>49,977</u>	<u>49,390</u>	<u>50,582</u>	<u>50,465</u>	<u>52,408</u>

On January 1, 2004, pursuant to a Transfer Agreement, Atlantic Southern Dental Foundation received the assets and assumed the liabilities of the Dental Practice Association of Maryland. Atlantic Southern Dental Foundation commenced business in Maryland effective January 1, 2004. The Transfer Agreement was approved by both the New Jersey Department of Insurance and the Maryland Insurance Administration. Should Atlantic Southern Dental Foundation cease doing business in Maryland, it is required under the Transfer Agreement to donate one-half of any remaining surplus, approximately \$87,800, to a charity associated with Maryland dentistry chosen by the Maryland dentists participating in the BeneCare program.

ASDF does not utilize capitation based payments for participating dentists. Rather the Company operates within a network of participating dentists under a payment methodology per N.J.S.A. 17:48D-2 which was agreed upon by NJDOBI on December 26, 2006. This change will allow the Company to implement payment withholds based upon the methodology utilized.

All claims for ASDF are processed by their Administrative Agent, Dental Benefit Management, Inc. in accordance with the Joint Venture Agreement with ASDF. Dental

Benefit Management Inc.'s claims processing and payment procedures are HIPPA compliant.

ASDF does not maintain any employees.

CORPORATE RECORDS

Atlantic Southern Dental Foundation's corporate records are held in their main administrative office at 615 Chestnut Street, Suite 1001, Philadelphia, Pa. 19106.

The Audit Committee and Management Committee meetings for ASDF are held jointly. A review of the minutes of the Audit Committee and Management Committee meetings noted that they were well attended by the Company's Management Committee. The Management Committee minutes also indicated that the Company's overall business transactions were adequately supported and approved.

MANAGEMENT AND CONTROL

ASDF is governed by the "Joint Venture Agreement" which is between the following entities: Atlantic Dental Foundation, Southern Dental Foundation and Dental Benefit Management, Inc. (DBMI). These entities create a Joint Venture which shall be conducted under the name "Atlantic Southern Dental Foundation" (ASDF). ASDF is a partnership of these three (3) entities, and has no employees. The Joint Venture shall be managed by the "Management Committee" which consists of two (2) representatives from each entity in the Joint Venture.

The Management Committee consists of the following individuals:

<u>NAME</u>	<u>REPRESENTATION</u>	<u>ADDRESS</u>
Lee Serota	Dental Benefit Management, Inc.	BeneCare Dental Plans 615 Chestnut St., Suite 1001 Philadelphia, Pa. 19106
Phyllis Serota	Dental Benefit Management, Inc.	BeneCare Dental Plans 615 Chestnut St., Suite 1001 Philadelphia, Pa. 19106
Murray Borman	Atlantic Dental Foundation	4123 Atlantic Avenue Atlantic City, NJ 08401
Stanley Cohen	Atlantic Dental Foundation	2198 New Road Linwood, NJ 08221
Dr. Stanton Deitch	Southern Dental Foundation	1756 Larkspur Lane Cherry Hill, NJ 08003

<u>NAME</u>	<u>REPRESENTATION</u>	<u>ADDRESS</u>
Dr. Harris Colton	Southern Dental Foundation	1840 Lark Lane Cherry Hill, NJ 08003

Members of the Management Committee remain members indefinitely until they are unable or unwilling to continue in their capacity as members. Any vacancy will be filled by the representation of the departing member. Any transaction of business must be unanimously approved and all members must vote on any transaction of business.

Under the Joint Venture Agreement, the policies and procedures agreed upon by the Management Committee shall be carried out by the Dental Benefit Management, Inc. as administrator of the ASDF.

ASDF is not required to comply with the provisions of N.J.S.A. 17:27A-4d(3).

CONTINGENT LIABILITIES

In the review of the Company's contingent liabilities, it was noted during the examination that the Company did not report on its annual statement under 2012 Common Interrogatories - Investment, Interrogatory Number 25.28 – securities that are not controlled by the Reporting Entity, special deposits that are held by states.

It is recommended that the Company report all special deposits that are held by states under Common Interrogatories - Investment, Interrogatory Number 25.28 in future annual statements.

REGULATION OF INSURANCE HOLDING COMPANY SYSTEMS

Atlantic Southern Dental Foundation (ASDF) is not a member of an insurance holding company system as defined in N.J.S.A. 17:27A-1 since they are a Dental Plan Organization (DPO) in New Jersey.

Since the Company is not a member of an insurance holding company system, it is not subjected to the various registration requirements of N.J.S.A. 17:27A-3.

Therefore, the Company is not subjected to filing the holding company registration statement that is required under N.J.S.A. 17:27A-3.

INTER-COMPANY AGREEMENTS

Joint Venture Agreement

Under the terms of the Joint Venture Agreement, which was executed on December 23, 1983 and amended on December 30, 2010, the management of Dental Benefit Management, Inc. ("DBMI"), a one-third partner, acts as the management of Atlantic Southern Dental

Foundation (Partnership). Certain costs are allocated between the Partnership and DBMI based on estimates by management. DBMI provides administrative, consulting, record keeping and analytical services. In return, the Partnership pays a monthly administrative fee based upon a percentage, approximately, of the payments from the Partnership's sponsors.

Under the Agreement Dental Benefit Management, Inc. (DBMI) is to provide servicing of ASDF's operations including:

- Marketing and Sales
- Client Contract Negotiation and execution
- Administration
- Bookkeeping and Accounting Services
- Data Summarization
- Client Servicing
- Managing Investments
- Claims Processing

Compensation for the services provided is based upon the fee indicated at the execution of each group plan contract. The fee paid for services rendered is based upon the expected cost to provide such services to the Sponsor's Group. The maximum amount of fees paid is limited as indicated below:

- Fee shall not exceed 30% of the premium paid by each employee under each group in the first year under the plan.
- Fee shall not exceed 25% of the premium paid by each employee under each group in the second year under the plan.
- Fee shall not exceed 20% of the premium paid by each employee under each group for each subsequent year.

Joint Cooperation Agreement

The Joint Cooperation Agreement was executed on September 10, 2003 by Atlantic Southern Dental Foundation (Partnership). The Joint Cooperation Agreement agreed to have the Partnership provide an additional \$100,000 to fund the Dental Practice Association of New Jersey, Inc. as required by N.J.S.A. 17:48C-25. During 2005 the Partnership advanced funds to the Dental Practice Association of New Jersey, Inc. in the form of a \$100,000 surplus note.

POLICY ON CONFLICT OF INTEREST

ASDF maintains a conflict of interest policy but does not require its officers, directors or key employees to complete a conflict of interest statement. The Company self-monitors and discloses suspected conflicts of interest to the ASDF Management Committee.

The NAIC Financial Condition Examiner Handbook has created a category called Control Best Practices. The Control Best Practices are defined as the most common ways in which insurers mitigate identified specific risks. The identified specific risk is that the insurer is not

properly identifying related parties. The NAIC Control Best Practice states that “the insurer has a policy in place that requires that conflict of interest questionnaires be completed and signed by officers, directors and key employees.”

The Company does not have a policy in place that requires that conflict of interest questionnaires be completed and signed by officers, directors and key employees and therefore violates the NAIC Financial Condition Examiner Handbook for Control Best Practice for related parties.

It is recommended that the Company create a conflict of interest questionnaire and that the Company require its officers, directors and key employees to execute the conflict of interest questionnaires on an annual basis in accordance with N.J.S.A. 17:23-22-3(a) and present the questionnaires to the Board of Trustees for evaluation and resolution of any potentially conflicting disclosures.

FIDELITY BOND AND OTHER INSURANCE COVERAGES

ASDF maintains fidelity bond coverage of \$500,000 for protection against theft, forgery and fraud in compliance with N.J.A.C. 11:10-1.11.

Additionally, ASDF also maintains \$2,000,000 of professional liability and \$1,000,000 of directors and officers liability coverage.

POLICY FORMS AND UNDERWRITING PRACTICES

ASDF’s most recent general rate filing to the New Jersey Department of Banking and Insurance (NJDOBI) was in 2004, and the most recent group specific rate filing for ASDF was in 2008. The Company is no longer required to file rates by NJDOBI.

ASDF utilizes underwriting guidelines and provides rates to sponsor's employees using a three tier rating system (single, two-party, and family). Rates are processed using up to four components: care, administration, Independent Practice Association's overhead, and commission income.

ACCOUNTS AND RECORDS

Dental Benefit Management, Inc. (DBMI) maintains ASDF's accounts and records and provides all processing of revenue and expenses.

ASDF's books of account are maintained on the Innovation Software Solutions, Inc. (ISSI) accounting System. Financial information needed in conjunction with the verification of assets and the determination of liabilities was made available in detail and summary form and was tested and reconciled to the general ledger and the annual statement. All of the Company's books and records are maintained at the Company's administrative office in Philadelphia, Pennsylvania.

Claim reserves and payments are recorded utilizing the Plan Administration, Claims adjudication, Payment Processing and Enrollment Eligibility (PACE) management system. The PACE system was designed by ISSI and allows Dental Benefit Management, Inc. to use the same platform to manage indemnity, PPO and specific co-payment programs. Claims are entered into PACE directly through batch processing by dentists and claims processing clearinghouses with the utilization of practice management software. Paper claims are outsourced to Data Dimensions Corporation which digitalize paper claims prior to entry into the PACE system. Claims received are reviewed to ensure information on the claim is accurate such as subscriber; dependent, dentist and procedure performed. The claims are then uploaded into the PACE system on an individual, claim basis. The claim database will also provide a check to ensure all claim information is accurate. Once a claim is processed, the system will generate checks and the signature of Phyllis Serota is stamped on the checks. There are no manual signatures needed for claim checks. The checks paid by the system are then entered into a check register which feeds the general ledger system and posts the checks paid.

Premium receipts are actually premiums received from the Company Sponsors. Invoices are developed based upon each Sponsor's contract (which is based upon the number of enrolled members and rate charged per member). Once a payment is received, via a post office, it is recorded on Excel spreadsheet and the amount is posted to the Company's cash receipts system. The cash receipt system directly feeds the general ledger system. Premium income for out of network dental services provided to ASDF enrollees is paid by ASDF to Dental Plan Association of New Jersey (DPANJ) based upon four different rates. Premium rates charged to ASDF Sponsors for out of network dental services are based upon the Sponsor's historical utilization of out of network services. Any premium received from Sponsors for out of network services is recorded by ASDF and paid to its affiliate DPANJ who provide for such services. Applicable commission payments are generated based upon each Sponsor's contract. There is only one Sponsor for which broker commission payments are due as of this examination report date. Commissions are not paid until the monthly premium income is received from the Sponsor.

Interest receipts on any income are posted per journal entry based upon monthly investment statements.

ADVERTISING AND SALES MATERIAL

A review of Atlantic Southern Dental Foundation advertising and sales materials disclosed that the Company is in compliance with N.J.S.A. 17:18-10 and that there were no material inconsistencies between the Company's sales material and their policies.

CONTINUITY OF OPERATIONS

A business continuity plan is necessary to help ensure the Company can adequately recover from a system failure or business interruption in a timely fashion and without the loss of significant data. Management should assess how the Company's reputation and financial status would be impacted in the event of a major processing disruption and, based on this

assessment, develop an appropriate continuity plan that would help to ensure the Company can adequately recover from a system failure or business disruption in a timely fashion.

The Company's comprehensive Business Continuity Plan, which includes a Disaster Recovery Plan, was reviewed and approved by New Jersey Department of Banking and Insurance Office of Solvency Regulation field insurance examination team.

In reviewing the Company's Joint Venture Agreement, which serves as the Company's By-laws, it was noted that the agreement did not have a vacancy clause under Section 3 Part 1 titled Management. It is recommended that the Company amend its Joint Venture Agreement to include a vacancy clause under Section 3 Part 1 titled Management.

GROWTH OF COMPANY

The direct premiums written to capital and surplus ratio for the period under examination are found below:

<u>Year Ending</u>	<u>Direct Premiums Written</u>	<u>Capital and Surplus</u>	<u>Ratio</u>
2008	12,462,830	1,486,554	8.384
2009	12,040,883	1,932,968	6.229
2010	11,686,125	2,448,728	4.772
2011	11,515,810	2,787,735	4.131
2012	11,292,381	3,402,068	3.319

The medical loss ratios for the period under examination are found below:

<u>Year Ending</u>	<u>Hospital and Medical Expenses</u>	<u>Total Revenues</u>	<u>Ratio</u>
2008	10,985,073	12,462,830	0.881
2009	10,242,777	12,040,883	0.851
2010	9,864,352	11,686,125	0.844
2011	9,900,571	11,515,810	0.860
2012	9,403,093	11,292,381	0.833

The administrative expense ratios for the period under examination are found below:

<u>Year</u> <u>Ending</u>	<u>General Administrative &</u> <u>Claims Adjustment</u> <u>Expenses</u>	<u>Total Revenues</u>	<u>Ratio</u>
2008	1,576,449	12,462,830	0.126
2009	1,428,599	12,040,883	0.119
2010	1,361,360	11,686,125	0.116
2011	1,321,936	11,515,810	0.115
2012	1,318,618	11,292,381	0.117

FINANCIAL STATEMENTS AND OTHER EXHIBITS

Exhibit A Balance Sheet as at December 31, 2012

**Exhibit B Summary of Revenue and Expenses for the Five-Year Period Ending
December 31, 2012**

**Exhibit C Capital and Surplus Account for the Five-Year Period Ending
December 31, 2012**

ATLANTIC SOUTHERN DENTAL FOUNDATION
BALANCE SHEET AT DECEMBER 31, 2012

	<u>Current Examination at 12/31/2012</u>	<u>Balance per Company at 12/31/2012</u>	<u>Examination Change</u>	<u>Note Number</u>
<u>Assets</u>				
Bonds	\$975,000	\$975,000	\$0	1
Cash	3,465,764	3,465,764	0	2
Other Invested Assets	100,000	100,000	0	
Uncollected Premiums & Agent Bal. in the Course of Collection	99,269	99,269	0	
Health Care and Other Amounts Receivable	0	1,000	(1,000)	3
Aggregate Write-in for Other than Invested Assets	1,000	0	1,000	4
Total Net Admitted Assets	<u>\$4,641,033</u>	<u>\$4,641,033</u>	<u>\$0</u>	
<u>Liabilities</u>				
Claims Unpaid	\$1,091,035	\$1,046,858	\$44,177	5
Unpaid Claims Adjustment Expenses	32,969	32,969	0	6
General Expenses Due or Accrued	132,664	32,664	100,000	7
Aggregate Write-ins for Other Liabilities	126,474	126,474	0	
Total Liabilities	<u>\$1,383,142</u>	<u>\$1,238,965</u>	<u>\$144,177</u>	
<u>Capital and Surplus</u>				
Aggregate Write-ins for Other Than Special Surplus Funds	100,000	100,000	0	
Unassigned Funds (Surplus)	3,157,891	3,302,068	(144,177)	
Total Capital and Surplus	<u>\$3,257,891</u>	<u>\$3,402,068</u>	<u>(\$144,177)</u>	8
Total Liabilities, Capital and Surplus	<u>\$4,641,033</u>	<u>\$4,641,033</u>	<u>\$0</u>	

ATLANTIC SOUTHERN DENTAL FOUNDATION
SUMMARY OF OPERATIONS FOR THE
FIVE-YEAR PERIOD ENDING DECEMBER 31, 2012

<u>UNDERWRITING INCOME</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
<u>Revenues:</u>					
Net Premium Income	\$11,292,381	\$11,515,810	\$11,686,125	\$12,040,833	\$12,462,830
<u>Hospital and Medical:</u>					
Other Professional Services	\$9,447,270 *	\$9,900,571	\$9,864,352	\$10,242,777	\$10,985,073
Total Hospital and Medical	<u>\$9,447,270</u>	<u>\$9,900,571</u>	<u>\$9,864,352</u>	<u>\$10,242,777</u>	<u>\$10,985,073</u>
Claims Adjustment Expenses	280,979	295,819	294,368	303,682	330,084
General Administrative Expenses	<u>1,137,639 **</u>	<u>1,026,117</u>	<u>1,066,992</u>	<u>1,124,917</u>	<u>1,246,365</u>
Total Underwriting Deductions	<u>10,865,888</u>	<u>11,222,507</u>	<u>11,225,712</u>	<u>11,671,376</u>	<u>12,561,522</u>
Net Underwriting Gain or (Loss)	<u>\$426,493</u>	<u>\$293,303</u>	<u>\$460,413</u>	<u>\$369,457</u>	<u>(\$98,692)</u>
<u>Investment Income:</u>					
Net Investment Income Earned	\$38,314	\$47,702	\$61,636	\$76,957	\$67,143
Net Realized Capital Gains or (Losses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Investment Gain or (Loss)	<u>\$38,314</u>	<u>\$47,702</u>	<u>\$61,636</u>	<u>\$76,957</u>	<u>\$67,143</u>
Net Income Before Federal Income Taxes	\$464,807	\$341,005	\$522,049	\$446,414	(\$31,549)
Federal and Foreign Income Taxes Incurred	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Income	<u>\$464,807</u>	<u>\$341,005</u>	<u>\$522,049</u>	<u>\$446,414</u>	<u>(\$31,549)</u>

* 2012 Examination Adjustment totaling \$44,177

** 2012 Examination Adjustment totaling \$100,000

ATLANTIC SOUTHERN DENTAL FOUNDATION
CAPITAL AND SURPLUS ACCOUNT FOR THE
FIVE-YEAR PERIOD ENDING DECEMBER 31, 2012

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
NET INCOME	<u>\$464,807</u>	<u>\$341,005</u>	<u>\$522,049</u>	<u>\$446,414</u>	<u>(\$31,549)</u>
<u>OTHER SURPLUS GAINS OR (-) LOSSES</u>					
Change in Net Unrealized Capital Gains or (-) Losses					
Change in Nonadmitted Assets	5,349	(1,998)	(6,289)	0	7,809
Cumulative Effect of Changes in Accounting Principles					(\$300,000)
Capital Changes Paid In					<u>(100)</u>
Total Other Surplus Gains or (-) Losses	\$5,349	(\$1,998)	(\$6,289)	\$0	(\$292,291)
Change in Surplus as Regards Policyholders for the Year	\$470,156	\$339,007	\$515,760	\$446,414	(\$323,840)
Surplus as Regards Policyholders December 31, Previous Year	<u>\$2,787,735</u>	<u>\$2,448,728</u>	<u>\$1,932,968</u>	<u>\$1,486,554</u>	<u>\$1,810,394</u>
Surplus as Regards Policyholders December 31, Current Year	<u><u>\$3,257,891</u></u>	<u><u>\$2,787,735</u></u>	<u><u>\$2,448,728</u></u>	<u><u>\$1,932,968</u></u>	<u><u>\$1,486,554</u></u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: BONDS

At December 31, 2012, Atlantic Southern Dental Foundation reported an asset for bonds of \$975,000 which was accepted for purposes of this examination.

During the review of bonds, it was noted that the Company was recording the interest on these securities at maturity date. It was verified by the Company's custodian – UBS Financial Services - that interest on ASDF securities are paid annually and not at maturity.

It is recommended by this examination that ASDF report Columns 18, 19 and 20 of Schedule D – Part 1 and report Asset Line 14 Investment Income Due and Accrued correctly in future annual statements.

NOTE 2: CASH

At December 31, 2012 the Company reported an asset for Cash of \$3,465,764 which was accepted for examination purposes.

It was determined by the examination that the Company was reporting a State of Maryland Special Deposit six month Treasury Note under Cash instead of Short-term investments. It is recommended by this examination that the Company report the Maryland Special Deposit six month Treasury Note on the balance sheet under Asset Line 5 Cash subheading Short-term Investments and on Schedule DA - Part 1 and value this short-term investment in accordance with SSAP Number 2 - Cash, Drafts, and Short-Term Investments - Paragraphs 10 and 11 - Short-Term Investments in future annual statements.

Pursuant to the requirements of N.J.S.A. 46:30B-1 and the "Unclaimed Property Filing Statement Instructions," the Company is required to file a report with the State of New Jersey on an annual basis. Each year the report must be filed before November 1st regardless of whether the Company has escheatable funds. Upon review, it was determined that the Company had not filed the report as required. It is recommended that the Company file the necessary escheatable funds report as required by N.J.S.A. 46:30B-1.

NOTE 3: HEALTH CARE AND OTHER AMOUNTS RECEIVABLE

The Company reported an asset for "Health Care and Other Amounts Receivable" in the amount of \$1,000 which was \$1,000 more than the amount determined by the examination of \$0.

The examination difference was a reclassification of the Company's other amounts receivable to the asset account titled – Aggregate Write-ins for Other than Invested Assets.

NOTE 4: AGGREGATE WRITE-IN FOR OTHER THAN INVESTED ASSETS

The Company reported an asset for “Aggregate Write-ins for Other than Invested Assets” in the amount of \$0 which was \$1,000 less than the amount determined by the examination of \$1,000.

This amount due to the Company was a result of the Maryland Insurance Administration imposing a \$1,000 penalty that was paid by the Company in 2012 and subsequently this penalty was later rescinded by the Maryland Insurance Administration and was reimbursed back to the Company in 2013.

NOTE 5: CLAIMS UNPAID

The Company reported a net liability for Claims Unpaid of \$1,046,858 at December 31, 2012 which was \$44,177 less than the amount determined by this examination of \$1,091,035.

The examination difference was attributed to the Company not reporting an estimate of costs incurred but not reported for unbilled services provided (IBNR) for year end 2012.

Atlantic Southern Dental Foundation (ASDF) is a Dental Plan Organization (DPO) licensed in New Jersey. Since DPO’s in New Jersey are not required to file an actuarial opinion, the examination team reviewed the claims methodology for claims unpaid as reported by the Company in the 2012 Annual Statement Notes to Financial Statements Note 1: Summary of Significant Accounting Policies Letter C titled Disclosure of Accounting Policies that Materially Affect Assets, Liabilities, Capital and Surplus or Results of Operations. It was discovered during the review of the claims methodology for claims unpaid that the Company did not set up a liability reserve estimate for IBNR for year end 2012.

The examination team then reviewed the CPA firm’s, Mayer Hoffman McCann P.C. (MHM), IBNR Estimate Testing workpapers for ASDF for year-end 2012. MHM determined that the IBNR calculation for December 31, 2012 for ASDF to be 4.22%. This IBNR percentage was arrived at by MHM by taking the average number of claims submitted for services performed for the three month period from July 1, 2012 to September 30, 2012 and comparing the average numbers of claims submitted for services performed for the six month period of July 1, 2012 to December 30, 2012. MHM arrived at an estimate that approximately 4.22% of claims were incurred but not reported as of December 31, 2012. The examination team, along with the New Jersey Department of Banking and Insurance (NJDOBI) Health Actuarial Division, agreed with MHM estimate for IBNR reserve for December 31, 2012.

It is recommended that the Company report an IBNR estimate reserve for Claims Unpaid in future annual statements.

NOTE 6: UNPAID CLAIMS ADJUSTMENT EXPENSES

At December 31, 2012 the Company reported a liability for unpaid claim adjustment expenses in the amount of \$32,969 which was accepted for examination purposes.

NOTE 7: GENERAL EXPENSES DUE AND ACCRUED

At December 31, 2012, the Company reported a balance of \$32,664 for General Expenses Due and Accrued which was \$100,000 less than the amount of \$132,664 as determined by this examination.

In the review of this liability, it was noted that the Company did not report an accrual for State Examination Audit Fees. It is recommended that the Company set up an accrual for State Examination Audit Fees for a period of five years in future annual statements.

NOTE 8: CAPITAL AND SURPLUS

The Company reported capital and surplus at December 31, 2012 of \$3,402,068 which consisted of contingent surplus of \$100,000 and unassigned funds of \$3,302,068. The examination reported capital and surplus of \$3,257,891 which was \$144,177 less than the amount reported by the Company. This decrease is due to examination changes to certain liability accounts, which ultimately affected the unassigned funds (surplus) account as follows:

Capital and Surplus at December 31, 2012 (per Company)	\$3,402,068
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Decrease in Surplus:

Claims Unpaid	\$44,177
General Expenses Due or Accrued	100,000

Net Decrease in Unassigned Funds (Surplus)	<u>\$144,177</u>
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Capital and Surplus at December 31, 2012 (per Examination)	<u>\$3,257,891</u>
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The Company minimum general surplus calculation, which is the greater minimum general surplus calculation between the Company's two multi-licensed states – Maryland and New Jersey, for year end 2012 was \$225,848. General surplus is defined as “The general surplus shall be maintained over and above its reserves, liabilities and special contingent surplus.”

The Company adjusted examination report general surplus for year end 2012 was \$3,157,891, therefore the Company is in compliance with the minimum general surplus calculation for year end 2012.

The Company is allowed under N.J.S.A. 17:48D-7 to report Contingent Surplus which is defined in this statute as “A dental plan organization utilizing in the aggregate the services of more than 20 full-time equivalent dentists accumulate and maintain a special contingent surplus in excess of its assets over liabilities at the rate of 2% annually of its net contract and certificate income until the surplus totals \$100,000.00.”

The Company contingent surplus for year end 2012 is \$100,000, therefore the Company is in compliance with N.J.S.A. 17:48D-7 contingent surplus calculation for year end 2012.

SUMMARY OF EXAMINATION RECOMMENDATIONS

Contingent Liabilities (page 8)

It is recommended that the Company report all special deposits that are held by states under Common Interrogatories - Investment, Interrogatory Number 25.28 in future annual statements.

Policy on Conflict of Interest (page 10)

It is recommended that the Company create a conflict of interest questionnaire and that the Company require its officers, directors and key employees to execute the conflict of interest questionnaires on an annual basis in accordance with N.J.S.A. 17:23-22-3(a) and present the questionnaires to the Board of Trustees for evaluation and resolution of any potentially conflicting disclosures.

Continuity of Operations (page 12)

It is recommended that the Company amend its Joint Venture Agreement to include a vacancy clause under Section 3 Part 1 titled Management.

Bonds (page 18)

It is recommended by this examination that ASDF report Columns 18, 19 and 20 of Schedule D – Part 1 and report Asset Line 14 Investment Income Due and Accrued correctly in future annual statements.

Cash (page 18)

It is recommended by this examination that the Company report the Maryland Special Deposit six month Treasury Note on the balance sheet under Asset Line 5 Cash subheading Short-term Investments and on Schedule DA - Part 1 and value this short-term investment in accordance with SSAP Number 2 - Cash, Drafts, and Short-Term Investments - Paragraphs 10 and 11 - Short-Term Investments in future annual statements.

Cash (page 18)

It is recommended that the Company file the necessary escheatable funds report as required by N.J.S.A. 46:30B-1.

Claims Unpaid (page 19)

It is recommended that the Company report an IBNR estimate reserve for Claims Unpaid in future annual statements.

General Expenses Due and Accrued (page 20)

It is recommended that the Company set up an accrual for State Examination Audit Fees for a period of five years in future annual statements.

CONCLUSION

A regular statutory financial condition examination was conducted by the undersigned with the assistance of fellow examiners of the New Jersey Department of Banking and Insurance examination staff.

The examination and audit was conducted at the Atlantic Southern Dental Foundation office in Philadelphia, PA. The courteous assistance and cooperation of the Company's officers and employees is acknowledged.

Respectfully Submitted,

/S/

**Vincent Kaighn, CFE
Examiner-in-Charge**

ATLANTIC SOUTHERN DENTAL FOUNDATION

I, Vincent Kaighn, do solemnly swear that the foregoing report of examination is hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of December 31, 2012 to the best of my information, knowledge and belief.

Respectfully Submitted,

/S/

Vincent Kaighn
Supervising Insurance Examiner
New Jersey Department of Banking & Insurance

State of New Jersey
County of Camden

Subscribed and sworn to before me, on this 6th day of June 2014.

Crystal Kane
Notary Public of New Jersey

My commission expires: 7/26/2014