STATE OF NORTH DAKOTA

BISMARCK, NORTH DAKOTA

REPORT OF EXAMINATION

OF

NORTH DAKOTA VISION SERVICES, INC.
FARGO, NORTH DAKOTA

AS OF
DECEMBER 31, 2004

STATE OF NORTH DAKOTA

DEPARTMENT OF INSURANCE

I, the undersigned, Commissioner of Insurance of the State of North Dakota do hereby certify that I have compared the annexed copy of the Report of Examination of the

North Dakota Vision Services, Inc.
4510 13th Avenue South
Fargo, ND 58121

as of December 31, 2004, with the original on file in this Department and that the same is a correct transcript therefrom and of the whole of said original.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal at my office in the City of Bismarck, this 11th day of April, 2008.

Adam W. Hamm
Commissioner of Insurance

TABLE OF CONTENTS

INTRODUCTION 1

SCOPE OF STATUTORY EXAMINATION 1

HISTORY 2

- General 2
- Membership 2
- Growth of the Company 3

MANAGEMENT AND CONTROL 3

- Directors 3
- Officers 3
- Conflict of Interest Procedures 4
- Corporate Records 4

AFFILIATED COMPANIES 4

FIDELITY BOND AND OTHER INSURANCE 4

PENSION AND INSURANCE PLANS 5

INSURANCE PRODUCTS AND RELATED PRACTICES 5

- Territory and Plan of Operation 5
- Consumer Complaints 6
- Administrative Service Contracts (ASC) 6

ACCOUNTS AND RECORDS 6

- Notes to Financial Statements and General Interrogatories 8

FINANCIAL STATEMENTS 8

NOTES TO FINANCIAL STATEMENTS 13

- Assets 13
  - *Bonds* 13
- Unassigned Funds 13

CONCLUSION 14

COMMENTS AND RECOMMENDATIONS 15

Fargo, North Dakota
January 30, 2007

Honorable Jim Poolman
Secretary, Midwestern Zone
Commissioner of Insurance
State of North Dakota
600 East Boulevard Avenue
Bismarck, ND 58505

Dear Commissioner:

Pursuant to your instructions and the statutory requirements of the State of North Dakota, a statutory examination has been made of the books, records, and financial condition of

North Dakota Vision Services, Inc.
4510 13th Avenue South
Fargo, ND 58121

and the report thereon is respectfully submitted.

INTRODUCTION

North Dakota Vision Services, Inc., hereinafter referred to as the "Company" was last examined as of December 31, 1998, for the period from January 1, 1995, through December 31, 1998, by Examiners of the North Dakota Insurance Department.

The current statutory examination was conducted by Examiners from the North Dakota Insurance Department. The statutory examination was performed at the Company's home office in Fargo, North Dakota.

SCOPE OF STATUTORY EXAMINATION

This examination was conducted pursuant to N.D. Cent. Code § 26.1-17-32 and covers the six-year period from January 1, 1999, through December 31, 2004, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination. During the course of this examination, assets were verified and valued and all known liabilities were established in accordance with statutory requirements and procedures recommended in the National Association of Insurance Commissioners Examiners Handbook. The extent of review on any given account or activity was based upon its relationship and importance to the total operation.

Accounting and other pertinent records were reviewed and test-checked to the extent deemed appropriate and a general review of the Company's operations, including market conduct activity, was conducted.

Work papers provided by the Company's independent auditor, EideBailly, L.L.P., were reviewed and where deemed appropriate certain procedures and conclusions documented in those work papers have been relied upon and copied for inclusion into the working papers for this examination.

Detail pertaining to the various phases of the examination are set forth under the appropriate caption in subsequent sections of this report.

All recommendations contained in the prior examination report dated December 31, 1998, have been adequately addressed by the Company, with the following exception: that the Company amend its trust agreement with Northern Capital Trust to include all of the safeguards and controls required by the NAIC *Financial Examiners Handbook.*

HISTORY

General

The Company was incorporated on March 10, 1961, under the laws of the State of North Dakota relating to nonprofit corporations. It commenced business on January 1, 1974, and is further governed under N.D. Cent. Code Chapter 26.1-17 pertaining to nonprofit vision service corporations. The period of its duration is perpetual.

Membership

The membership of the Company is composed of voting and nonvoting Participating Providers. Voting Participating Providers are licensed optometrists and ophthalmologists who practice in North Dakota and have contracted with the Company to provide services to individuals who are subscribers to the Company's benefit plans and who comply with the rules and regulations of the Company. Nonvoting Participating Providers are optometrists and ophthalmologists who are licensed to practice their profession and who comply with the rules and regulations of the Company but who are not practicing in North Dakota.

Five members in good standing in attendance at each annual meeting constitute a quorum. During the years under examination, the annual meetings were held on the following dates:

October 29, 1999
October 13, 2000
October 26, 2001
October 25, 2002
October 17, 2003
October 22, 2004

A quorum was present at each annual meeting.

Growth of the Company

The growth of the Company for the years since 1998 is shown in the following schedule, which was prepared from the Company's Annual Statements except for 2004 which was determined by statutory examination:

Year	Admitted Assets	Liabilities	Unassigned Funds
1999	$ 815,122	$312,689	$ 502,433
2000	1,187,621	365,296	822,325
2001	1,320,584	274,305	1,046,279
2002	1,447,726	332,058	1,115,668
2003	1,759,020	335,990	1,423,029
2004	1,882,328	371,577	1,510,751

MANAGEMENT AND CONTROL

The management of the Company's affairs, business, and property is vested in a Board of Directors consisting of not less than nine persons. A majority of the directors must be Voting Participating Providers of the Company. The balance of the Directors on the Board shall be subscribers of the Company. A nonvoting Participating Provider may not serve as a director.

Directors

As noted in the Company minutes, directors serving the Company at December 31, 2004, were as follows:

Name	Term Expires	Address
Melanie K. Oltmanns, O.D.	2007	Dickinson, ND
Todd L. Metzger, O.D.	2005	Fargo, ND
Edwin J. Gerhardt	2007	Bismarck, ND
Amy M. Mitzel DuBois, O.D.	2006	Fargo, ND
Douglas M. Nordby, O.D.	2006	Watford City, ND
David D. Remillard	2005	Minot, ND
Avery T. Jones, O.D.	2007	Grand Forks, ND
John N. Helmers, O.D.	2006	Mandan, ND
William J. Welder, O.D.	2005	Wahpeton, ND

Officers

The Bylaws provide that the Board of Directors shall elect from their members a Chair of the Board, a Vice Chair, a Secretary-Treasurer, and such other officers as the Board from time to time may elect. The managing corporate officers shall include a President and such other officers as may be elected or appointed, subject to the approval of the Board. The President shall be elected by the Board. The other managing officers shall be appointed by the President and approved by the Board.

Officers serving on December 31, 2004, were as follows:

Officer	Title
Avery Jones, O.D.	Chair
Ed Gerhardt	Vice Chair
David Remillard	Secretary/Treasurer
Timothy J. Huckle	President
David Breuer	Assistant Treasurer
Kathy Robley	Assistant Secretary

Conflict of Interest Procedures

The Company requires the members of the Board of Directors to file a conflict of interest statement on an annual basis. During the period under review, the conflict of interest statements were, with few exceptions, completed by the directors and managing corporate officers.

Corporate Records

The minutes of the Board of Directors for the period under statutory examination were read. Minutes of meetings indicate that all meetings were held in accordance with the Company's Bylaws.

The Board of Directors' minutes indicate the approval and support of transactions and events.

The February 11, 2000, minutes of the Board of Directors disclose the review and approval of the previous statutory examination.

At the November 8, 2000, board meeting, the Board of Directors approved a restatement and amendment of the Company's Bylaws. The Bylaws were again amended pursuant to the approval of the Board of Directors at its October 22, 2004, meeting,

AFFILIATED COMPANIES

Affiliated companies include Noridian Mutual Insurance Company (formerly Blue Cross Blue Shield of North Dakota) and its subsidiaries, Noridian Administrative Services, L.L.C.; Noridian Insurance Services, Inc.; Claims and Benefits, Inc.; Twenty First Century Information Solutions, Inc.; and Coordinated Financial Resources Group.

Other affiliates include Lincoln Mutual Life and Casualty Insurance Company, Dental Service Corporation of North Dakota and Comprehensive Health Association of North Dakota.

FIDELITY BOND AND OTHER INSURANCE

The Company is protected from loss against insurable hazards through the Noridian Mutual Insurance Company package of insurance. Coverages are as follows:

1. Noridian Mutual Insurance Company and affiliated companies are named insureds on a financial institution bond providing a single loss limit of liability of $5,000,000 for loss resulting from dishonest or fraudulent acts committed by an employee.

2. Directors and Officers Liability.

3. General Liability and Property.

4. Automobile.

5. National Flood Insurance.

6. Information Technology Coverage.

7. Financial Institution Bond.

8. Commercial Umbrella Policy.

9. Aviation Insurance.

10. Media Liability.

PENSION AND INSURANCE PLANS

The Company does not have any employees and consequently has not adopted any employee welfare plans.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is authorized to transact the business of a nonprofit vision service association in the State of North Dakota only.

At December 31, 2004, 36 brokers, 14 internal general business consultants, and 14 internal service representatives were selling insurance coverages offered by the Company. None of the aforementioned were appointed as agents of the Company at December 31, 2004, or at any time during the period under examination. It is the opinion of this Department that all of the aforementioned were acting as agents of the Company and should have been appointed as such is required by N.D. Cent. Code §§ 26.1-26-06 and 26.1-26-13.1 and N.D. Admin. Code § 45-02-02-06.

It is recommended that the Company develop the necessary procedures to ensure that any agent who is selling, soliciting, or negotiating insurance (including coverage offered on a group or individual basis) on behalf of the Company is licensed and appointed by the Company.

Consumer Complaints

The Examiners reviewed the customer complaint register for Noridian Mutual Insurance Company which contains customer complaints involving Noridian and its affiliates. The register did not contain any complaints relating to the Company.

Administrative Service Contracts (ASC)

The Company provides claim processing services to uninsured plan sponsors who bear the underwriting risk for payment of claims. In return for providing the claim processing services, the Company receives an administrative fee from the plan sponsors.

NAIC Annual Statement Instructions require the Company to disclose the profitability of uninsured plans in the Notes to the Financial Statements. During the period under examination, the Company did not have a method to allocate expenses to uninsured plans and as an alternative reported the gross administrative reimbursements received as the expense for uninsured plans. This method produces a zero underwriting gain or loss as illustrated in the following schedule for 2004:

	ASC Uninsured Plans	Uninsured Portion of Partially Insured Plans	Total ASC
Gross reimbursement for medical cost incurred	$1,494,398	0	$1,494,398
Gross administrative fees accrued	150,861	0	150,861
Other income or expenses	0	0	0
Gross expenses incurred	$1,645,259	0	$1,645,259
Total net gain or loss from operations	0	0	0

It is recommended that the Company adopt a method to allocate expenses for ASC Plans.

ACCOUNTS AND RECORDS

The Company has contracted with Noridian Mutual Insurance Company for accounting, administrative, and related services. The contract was negotiated in 1974 and provides that Noridian Mutual Insurance Company be reimbursed by the Company for sales and administrative services rendered on the basis of its reasonable costs.

The agreement calls for Noridian Mutual Insurance Company to provide the following services:

1. Establish subscriber contract benefits.

2. Recommend subscription rates for contract benefits and obtain Company approval.

3. Establish enrollment regulations governing the acceptance of the Company's subscribers.

4. File the Company's contracts with the State Insurance Department as required.

5. Issue printed subscriber contracts to enrolled groups and identification cards to all the Company's subscribers.

6. Market the Company's contract by providing the services of Noridian's marketing staff and by advertising the availability of such a contract.

7. Issue billing notices to the Company's subscribers and be custodian of such payments.

8. Provide administrative services required to pay the Company's claims.

9. Provide professional relations services between the Company and participating dentists.

10. Ensure judicious utilization of the Company's contract benefits by establishing programs to discourage abuse of such benefits.

11. Serve the Company's subscribers by answering all subscribers' inquiries relating to available benefits, subscription rates, and payments of claims.

12. Provide for the accounting of all the Company's income and expense in accordance with commonly accepted accounting procedures, prepare an annual budget for the Company, and provide Company officials with periodic financial reports.

13. Maintain statistical data for the Company which will remit the establishment of actuarially sound subscription rates.

14. Provide ongoing professional management of the program and provide for research and development to maintain the Company's program in accordance with current vision practices.

During the six-year period under review, the Company's actual reimbursed costs incurred to Noridian Mutual Insurance Company (Noridian) were determined to be as follows:

Year	Amount
1999	$265,275
2000	$306,943
2001	$394,834
2002	$558,725
2003	$537,339
2004	$684,414

Notes to Financial Statements and General Interrogatories

The Company's responses to the Notes to the Financial Statements and General Interrogatories were reviewed accuracy and completeness and for compliance with NAIC Annual Statement Instructions. The following exceptions were noted:

Income Taxes:

- 9.D. – No response given.
- 9.E & 9.F. – Reponses were correct but were incorrectly labeled 9.A and 9.B.

Information Concerning Parent, Subsidiaries and Affiliates:

- 10.A. – The relationship with Noridian Mutual Insurance Company and other affiliates listed on Schedule Y was not disclosed in Note 10.
- 10.D. – The amounts due to Noridian Mutual Insurance Company at December 31, 2004, along with terms and manner of settlement was not disclosed.

The following differences were noted in the responses to the General Interrogatories - Part 1:

- 19.1 – The correct response should have been "no" since bonds and stocks were not in actual possession of the Company at December 31, 2004.
- 19.2 – The name of the custodian of securities at December 31, 2004, should have been given.
- 24.1 – The response should have been "yes" since the Company owned mutual funds at December 31, 2004.
- 24.2 -- The name of mutual funds owned at year end should have been listed.
- 24.3 – The name of significant holdings for mutual funds should have been listed.

The following differences were noted in the responses to the General Interrogatories - Part 2:

- 5.3 – The maximum retained risk was not completed.

It is recommended that the Company complete the Notes to the Financial Statements and General Interrogatories in compliance with the NAIC *Annual Statement Instructions.*

FINANCIAL STATEMENTS

The Financial Statements section includes the following:

Statement of Assets, Liabilities, Capital and Surplus, as of December 31, 2004
Statement of Revenue and Expenses For the Year Ended December 31, 2004
Reconciliation of Capital and Surplus, December 31, 1999, through December 31, 2004

North Dakota Vision Services, Inc.
Statement of Assets, Liabilities, Capital and Surplus
as of December 31, 2004

	Ledger Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$814,870		$814,870
Stocks:			
Common stocks	406,003		406,003
Cash	584,487		584,487
Short-term investments	48,211		48,211
Interest income due and accrued	10,379		10,379
Uncollected premiums	5,178		5,178
Current federal income tax recoverable	13,200		13,200
Totals	$1,882,328		$1,882,328

North Dakota Vision Services, Inc.
Statement of Assets, Liabilities, Capital and Surplus
as of December 31, 2004

Claims unpaid	$ 190,000
Unpaid claim adjustment expenses	14,000
Premiums received in advance	32,114
General expenses due or accrued	33,788
Net deferred tax liability	15,500
Amounts withheld or retained for the account of others	1,319
Amounts due to parent, subsidiaries and affiliates	84,856
Total liabilities	$ 371,577
Unassigned funds	1,510,751
Total	$1,882,328

North Dakota Vision Services, Inc.
Statement of Revenue and Expenses
for the Year Ended December 31, 2004

Underwriting Income		
Net premium income		$2,721,334
Deductions:		
Hospital/medical benefits	$2,119,610	
Claim adjustment expenses	218,087	
General administrative expenses	362,503	
Total underwriting deductions		2,700,200
Net underwriting gain or (loss)		$ 21,134
Investment Income		
Net investment income earned	$38,494	
Net realized capital gains or losses	32,925	
Net investment gain or (loss)		71,419
Net gain or (loss) before federal income taxes		$ 92,553
Federal income taxes incurred		10,300
Net income		$ 82,253

North Dakota Vision Services, Inc.
Reconciliation of Capital and Surplus

	2004	2003	2002	2001	2000	1999
Capital and Surplus, December 31, previous year	$1,423,029	$1,115,668	$1,046,280	$822,323	$502,432	$277,401
Net income	82,253	254,476	92,228	237,886	315,478	214,326
Net unrealized capital gains or (losses)	7,470	74,385	(30,840)	(13,929)	2,234	8,557
Change in net deferred income tax	(2,000)	(21,500)	8,000			
Change in nonadmitted assets					2,179	2,179
Prior year reserve adjustment						(31)
Net change in reserves and unassigned funds for the year	87,723	307,361	69,388	223,957	319,891	225,031
Capital and Surplus, December 31, current year	$1,510,752	$1,423,029	$1,115,668	$1,046,280	$822,323	$502,432

NOTES TO FINANCIAL STATEMENTS

Assets

Bonds

At December 31, 2004, the Company's Revocable Trust Agreement with State Bank and Trust (formerly Northern Capital Management) was not in compliance with the requirements of N.D. Admin. Code § 45-03-23-02. The Company and State Bank and Trust subsequently executed a new agreement that complies with N.D. Admin. Code § 45-03-23-02.

The Company reported $745,231 of bonds as pass-through securities in the Summary Investment Schedule (page 26 of the 2004 Annual Statement). Discussion with the Company's Investment Advisor determined that the Company owned bonds issued by U.S. government agencies rather than pass-through securities. It is noted that the issues were properly reported in Schedule D, Part 1 as issuer obligations.

It is recommended that the Company take the necessary steps to insure that investments reported on the Summary Investment Schedule are properly classified.

The Company also made various minor errors in completing Schedule D, Parts 1 and 2, of the 2004 Annual Statement, including incorrectly reporting a mutual fund in Part 1 rather than Part 2; and incorrectly reporting the CUSIP number, the interest rate, and maturity date of securities

Unassigned Funds

N.D. Cent. Code § 26.1-17-25 provides that unassigned funds shall not be not less than the sum of incurred claims and operating and overhead expenses for at least two months, but not more than four months. At December 31, 2004, the Company's unassigned funds, reflecting approximately 6.71 months of claims and reserves, exceeded the four month of claims and expenses limitation.

It is recommended that the Company perform the necessary steps to insure that its unassigned funds are within the two-month and four-month claim and expense corridor set forth in N.D. Cent. Code § 26.1-17-25.

CONCLUSION

The financial condition of the Company, as of December 31, 2004, as determined by this examination is summarized as follows:

Admitted Assets		$1,882,328
Total Liabilities	$ 371,577	
Capital and Surplus	1,510,751	
Liabilities, Capital and Surplus		$1,882,328

No adjustment of the balance sheet amounts reported by the Company in its 2004 Annual Statement was made by this examination.

Since the last examination conducted as of December 31, 1998, the Company's admitted assets have increased $1,237,537, its total liabilities have increased $63,444, and its capital and surplus have increased $1,174,093.

David Weiss, CFE, performed the examination with the assistance of examiner Chad Myhre and the undersigned.

The courteous cooperation extended during the course of the examination by the officers of the Company and employees of Noridian Mutual Insurance Company is gratefully acknowledged.

Respectfully submitted,

Carole Kessel, Chief Examiner
North Dakota Insurance Department

COMMENTS AND RECOMMENDATIONS

It is recommended that the Company develop the necessary procedures to ensure that any agent who is selling, soliciting, or negotiating insurance (including coverage offered on a group or individual basis) on behalf of the Company is licensed and appointed by the Company.

It is recommended that the Company adopt a method to allocate expenses for ASC Plans.

It is recommended that the Company complete the Notes to the Financial Statements and General Interrogatories in compliance with the NAIC *Annual Statement Instructions*.

It is recommended that the Company take the necessary steps to insure that investments reported on the Summary Investment Schedule are properly classified.

It is recommended that the Company perform the necessary steps to insure that its unassigned funds are within the two-month and four-month claim and expense corridor set forth in N.D. Cent. Code § 26.1-17-25.