# STATE OF NORTH DAKOTA

# BISMARCK, NORTH DAKOTA

# REPORT OF EXAMINATION

# OF

# NORTH DAKOTA VISION SERVICES, INC.

# FARGO, NORTH DAKOTA

# AS OF
# DECEMBER 31, 2009

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.**
**Fargo, North Dakota**

as of December 31, 2009, with the original on file in this Department and that the same is a correct transcript there from 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 5th day of April, 2011.

COMMISSIONER OF INSURANCE SEAL STATE OF NORTH DAKOTA

Adam Hamm
Commissioner of Insurance

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Fargo, North Dakota
January 28, 2011

Honorable Joseph Torti III
Chairman, Financial Condition (E) Committee NAIC
Deputy Director and Superintendent of Insurance
Rhode Island Department of Business Regulation
Division of Insurance
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Honorable Stephen W. Robertson
Secretary, Midwestern Zone (III), NAIC
Commissioner, Indiana Department of Insurance
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Indianapolis, IN 46204-2787

Honorable Adam Hamm
Commissioner of Insurance
State of North Dakota
600 East Boulevard Avenue
Bismarck, ND 58505

Dear Commissioners:

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

**North Dakota Vision Services, Inc.**
**Fargo, North Dakota**

North Dakota Vision Services, Inc. hereinafter referred to as "VSI" or the "Company", was last examined as of December 31, 2004, by the North Dakota Insurance Department.

## SCOPE OF EXAMINATION

This examination was a risk focused financial condition examination conducted in accordance with North Dakota Century Code (N.D.C.C.) § 26.1-17-32 and observed guidelines and procedures contained in the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook.* The examination was conducted to determine the Company's financial condition, its compliance with statutes, and to review its corporate affairs and insurance operations. This statutory examination covers the period from January 1, 2005, to and including December 31, 2009, and material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

Our examination was conducted in accordance with examination policies and standards established by the North Dakota Insurance Department and procedures recommended by the NAIC. In accordance with the NAIC *Financial Condition Examiners Handbook,* we planned and

performed the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with statutory accounting principles and annual statement instructions when applicable to domestic state regulations.

This examination was conducted by contract examiners for the North Dakota Insurance Department, representing the Midwestern Zone, with the assistance of a computer specialist retained by the Department.

## STATUS OF PRIOR EXAMINATION FINDINGS

The Company was in compliance with the prior examination recommendations except for the following: The prior examination noted the Company was not in compliance with N.D.C.C. § 26.1-17-25 which provides that contingency reserves 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 were approximately 6.71 months of claims and reserves. This exceeded the four month of incurred claims and overhead expenses limitation.

At December 31, 2009, the Company's unassigned funds were approximately 4.5 months of claims and reserves. A chart showing the Company's ratio at each year end during the examination period is show below:

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| Months-In-Reserve | 6.71 | 6.05 | 5.50 | 1.3 | 2.46 | 4.5 |

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

## SUMMARY OF SIGNIFICANT FINDINGS

As mentioned above, the Company's unassigned funds were equal to approximately 4.5 months of claims and expenses. This exceeded the four months of claims and expenses limitation specified in N.D.C.C. § 26.1-17-25.

The Marketing and Administrative Services agreement between Noridian and North Dakota Vision Services, Inc., dated September 23, 1974, does not contain a provision for the timely settlement of amounts owed as required under SSAP 25, paragraph 6 as amended by SSAP 96. Under SSAP 25, paragraph 6 as amended by SSAP 96, transactions between related parties must be in the form of a written agreement that specifies due dates. If the due date is not addressed by the written agreement, any uncollected receivable is nonadmitted.

The Company has stated that a Board of Directors approval of "due in 30 days" would be adequate to meet the SSAP interpretation. This approval is not part of the written agreement and is not considered adequate to meet SSAP 25, paragraph 6.

## SUBSEQUENT EVENTS

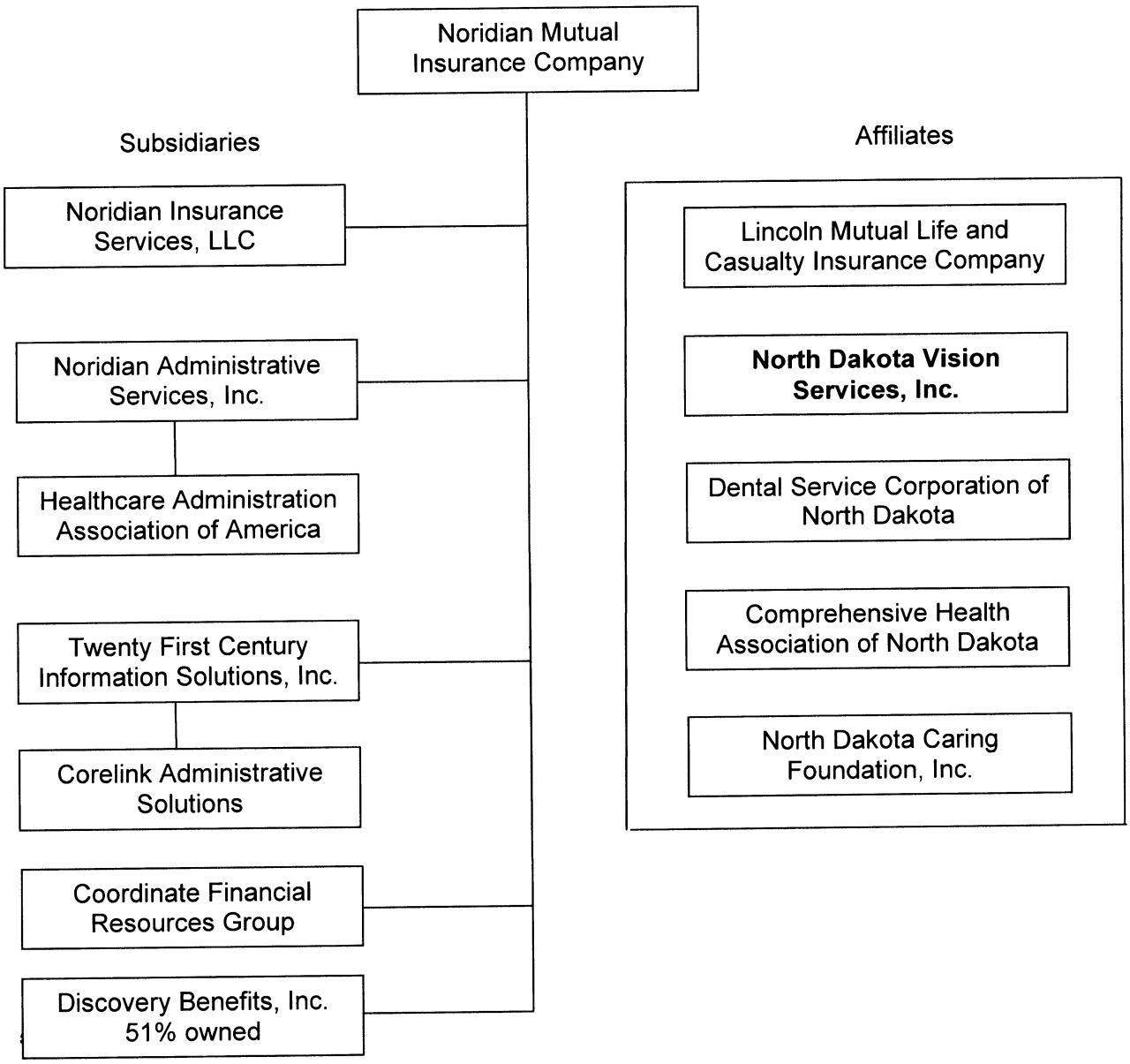
As of November 2010, the Company's unassigned funds were equal to approximately 6.0 months of claims and expenses. On November 15, 2010, the Department approved a rate decrease of 14.5 percent effective January 1, 2011.

## HISTORY

VSI 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.C.C Chapter 26.1-17 pertaining to nonprofit vision service corporations. VSI's duration is perpetual. VSI has no capital stock and no part of its earnings shall in any manner inure to the benefit of any member.

# ORGANIZATIONAL CHART

The relationship of the Company to its affiliates is shown in the following organizational chart:



**Noridian Insurance Services, Inc.** (NISI), of which Noridian owns 94 percent and affiliate Lincoln Mutual Life and Casualty Insurance Company owns 6 percent, operates as an insurance agency and provides employee benefit plan administration for pension, health and other welfare plans throughout the Upper Midwest area.

**Noridian Administrative Services LLC** (NAS), a Delaware limited liability company, was formed in 2002 to operate as a regional claims contractor for the federal government's Medicare program, processing Medicare claims for the States of North Dakota, Minnesota, South Dakota, Iowa, Wyoming, Colorado, Alaska, Oregon, Washington, Nevada, Arizona and Hawaii. NAS is a wholly owned subsidiary of Noridian Mutual Insurance Company (Noridian). The operations transferred to NAS were previously a line of business within Noridian.

**Healthcare Administration Association of America** (HAAA) was formed on February 24, 2009, as a wholly owned subsidiary of NAS. HAAA was organized to conduct business in China including healthcare financing administration and related activities in China. Currently, HAAA is administering claims associated with the urban employees of the city of Xinxiang. HAAA has entered into an agreement with the City of Xinxiang for a period of 12 years.

**Twenty First Century Information Solutions, Inc.** (21st Century), incorporated May 18, 1994, is a wholly owned subsidiary of Noridian. The Company was originally formed to furnish computer services to allow providers to become electronically integrated with the Company. Currently, the Company is primarily the holding company for Corelink Administrative Solutions, LLC.

**Corelink Administrative Solutions, LLC** (Corelink) was formed on January 1, 2009, with Noridian (through 21st Century) and Blue Cross and Blue Shield of Nebraska each holding a 50% interest through a downstream subsidiary. Corelink provides information technology services to health insurers, health maintenance organizations and other managed care entities, including Noridian and Blue Cross and Blue Shield of Nebraska.

**Coordinate Financial Resource Group** was formed to coordinate the activities of the individual companies affiliated with Noridian by facilitating communication and strategy for the affiliated members.

**Discovery Benefits, Inc.** is an employee benefits administrator jointly owned by Noridian (51% interest) and State Bank and Trust (49% interest).

**Lincoln Mutual Life and Casualty Insurance Company** (Lincoln) was incorporated as a mutual insurance company in 1935 under the laws of North Dakota. Noridian provides Lincoln with administration, management, marketing, and insurance services.

**Comprehensive Health Association of North Dakota** (CHAND) is a statutorily created association organized to provide health care coverage to high-risk individuals who would otherwise not be able to obtain coverage. Noridian is the lead insurer and administrator of the program. Noridian is reimbursed by CHAND for its direct and indirect expenses, but is limited to receiving no more than 12.5 percent of premiums for reimbursed expenses.

**Dental Service Corporation of North Dakota** (Dental) was incorporated on May 22, 1970, under the laws of North Dakota and is governed under N.D.C.C. Chapter 26.1-17 pertaining to nonprofit health service corporations. Corporate membership of Dental is composed of licensed

dentists who practice in North Dakota. The affairs and business of Dental are managed by its Board of Directors.

Dental began offering benefits for certain dental care services in 1973. Pursuant to an agreement effective January 23, 1975, Noridian began providing sales and administrative services to Dental.

**North Dakota Caring Foundation, Inc.** is a not-for-profit organization developed by Noridian to provide primary and preventive health services to children who reside in households that have an annual income exceeding the state's medical assistance guidelines but falling below the federal poverty level. Noridian provides all administrative services for the foundation at no cost.

## SUBSIDIARY AND AFFILIATE TRANSACTIONS

**Allocation of Expenses**

Effective September 23, 1974, the Company and Noridian entered into an agreement under which Noridian:

1. Establishes subscriber contract benefits.
2. Recommends subscription rates for contract benefits and obtain Company approval.
3. Establishes enrollment regulations governing the acceptance of the Company's subscribers.
4. Files the Company's contracts with the State Insurance Department as required.
5. Issues printed subscriber contracts to enrolled groups and identification cards to all of the Company's subscribers.
6. Markets the Company's contract by providing the services of Noridian's marketing staff and by advertising the availability of such a contract.
7. Issues billing notices to the Company's subscribers and be custodian of such payments.
8. Provides administrative services required to pay the Company's claims.
9. Provides professional relations services between the Company and participating optometrists and ophthalmologists.
10. Ensures judicious utilization of the Company's contract benefits by establishing programs to discourage abuse of such benefits.
11. Serves the Company's subscribers by answering all subscribers' inquiries relating to available benefits, subscription rates, and payments of claims.
12. Provides 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. Maintains statistical data for the Company which will remit the establishment of actuarially sound subscription rates.

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

This agreement does not contain a provision for the timely settlement of amounts owed as required under SSAP 25, paragraph 6 as amended by SSAP 96. Under SSAP 25, paragraph 6 as amended by SSAP 96, transactions between related parties must be in the form of a written agreement that specifies due dates. If the due date is not addressed by the written agreement, any uncollected receivable is nonadmitted.

The Company has stated that a Board of Directors approval of "due in 30 days" would be adequate to meet the SSAP interpretation. This approval is not part of the written agreement and is not considered adequate to meet SSAP 25, paragraph 6.

**It is recommended that the Company amend the Marketing and Administrative Services agreement between Noridian and North Dakota Vision Services, Inc. dated September 23, 1974, to provide for a timely settlement of amounts owed, with a specified due date as required by SSAP 25, paragraph 6.**

The Company reimburses Noridian on the basis of reasonable cost. Noridian maintains a pool of administrative expenses that are allocated to Noridian's subsidiaries and affiliates based upon the cost accounting and allocation system used by the Noridian.

| Year | VSI Administrative Expenses (Net) | Noridian Administrative Expenses (Gross) |
|---|---|---|
| 2005 | $ 776,892 | $190,067,332 |
| 2006 | 930,774 | 220,961,155 |
| 2007 | 1,038,948 | 245,863,424 |
| 2008 | 1,115,622 | 233,429,979 |
| 2009 | 1,152,061 | 262,503,459 |

Total expenses or gross expenses shown above represent the pool of administrative expenses allocated under Noridian's cost accounting and allocation system. These expenses include amounts incurred by Noridian as well as expenses incurred by all subsidiaries and affiliates. Net expenses represent the costs allocated to the Company.

Under Noridian's cost accounting system, affiliates are established as lines of business. Cost centers allocate expenses to lines of business based on employee counts, time studies,

contract counts, or other bases deemed to be appropriate. Allocation bases are updated monthly and actual expenses are compared to budget on a monthly basis.

## MANAGEMENT AND CONTROL

### Membership

VSI is comprised 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.

Other providers of optical supplies or equipment may agree to comply with the rules and regulations of the Company and execute a Participating Supplier Agreement with the Company to provide services, supplies and equipment to Members of the Company's benefit plans. Participating Suppliers are not Participating Providers of the Company.

Each Voting Participating Provider of the Company shall have one vote on each matter submitted to a vote of the Participating Providers. Nonvoting Participating Providers and Participating Suppliers shall not be entitled to vote on any issue. Voting by proxy shall not be allowed.

An Annual Meeting of the Company shall be held on a date coinciding with the Annual Meeting of the North Dakota Optometric Association each year at a time and place to be determined by the Board of Directors for the purpose of electing Directors and for the transaction of such other business as may come before the meeting.

Special Meetings of the Participating Providers may be called by the President, the Chair of the Board, five or more Directors of the Board, five percent or more of the Voting Participating Providers, or as otherwise required by law.

### Board of Directors

The Board of Directors shall consist of not fewer than nine persons. A majority of Directors shall be Voting Participating Providers of the Company. Nonvoting Participating Providers and Participating Suppliers may not serve as a Director of the Board. The Provider Directors will be elected at the Company's Annual Meeting.

The balance of Directors shall be Subscribers of the Company, or employees, officers, directors or trustees of a Subscriber of the Company. The Subscriber Directors will be elected at the Company's Annual Meeting. Subscriber Directors shall have no direct affiliation with any Participating Provider or Participating Supplier of the Company or with any business that could have an adverse effect on the Company.

Approximately one-third of the Directors shall be elected each year. Each Director shall be elected to serve for a term of three years unless election is to a vacant position, in which case

the term of office shall be the unexpired portion of the preceding Director's term. Effective November 1, 2000, no Director shall serve for more than three successive terms or nine consecutive years without at least a one-year break in service.

Following is a list of the directors and their principal business affiliations as of December 31, 2009:

| Name | Term Expires | Address | Type of Director |
|---|---|---|---|
| Timothy Lee Haugen | 2010 | Fargo, ND | Consumer |
| Todd Lee Metzger | 2011 | Fargo, ND | Provider |
| Jon Erick Larson | 2011 | Bismarck, ND | Consumer |
| James Allen Helmers | 2012 | Mandan, ND | Provider |
| Bruce Allen Moen | 2012 | Minot, ND | Provider |
| Mark Kenton Helgeson | 2010 | Park River, ND | Provider |
| William Joseph Welder | 2011 | Wahpeton, ND | Provider |
| Amy Michelle Mitzel DuBois | 2012 | Fargo, ND | Provider |
| Melanie Kay Oltmanns | 2010 | Dickinson, ND | Provider |

**Committees**

*Finance and Investment Committee*

| | |
|---|---|
| Mark Kenton Helgeson, OD | Committee Chair |
| Melanie Kay Oltmanns, OD | Member |
| James Allen Helmers, OD | Member |
| Bruce Allen Moen, OD | Member |
| William Joseph Welder, OD | Ex Officio |
| David Breuer | Ex Officio |

*Audit and Compliance Committee*

| | |
|---|---|
| Timothy Lee Haugen | Committee Chair |
| Jon Erick Larson | Member |
| Todd Lee Metzger, OD | Member |
| Amy Michelle Mitzel DuBois, OD | Member |
| William Joseph Welder, OD | Ex Officio |
| David Breuer | Ex Officio |

*Nominating Committee*

| | |
|---|---|
| Todd Lee Metzger, OD | Committee Chair |
| Bruce Allen Moen, OD | Member |
| Amy Michelle Mitzel DuBois, OD | Member |
| Jon Erick Larson | Member |
| William Joseph Welder, OD | Ex Officio |
| David Breuer | Ex Officio |

### Officers

The Bylaws provide that the Board of Directors (Board) 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.

The officers serving as of December 31, 2009, were as follows:

| Officer | Title |
|---|---|
| David John Breuer | President |
| Timothy Lee Haugen | Secretary |
| Chris Eliot Johnston | Assistant Treasurer |
| Bradley William Bartle | Actuary |

The Company requires members of the Board file a conflict of interest statement annually. The Examiners reviewed conflict of interest statements provided by the Company for 2005 through 2009. No significant exceptions were noted.

### Corporate Records

The Articles of Incorporation, Bylaws, and minutes of the Board of Directors, Finance and Investment Committee, and the various other committees were reviewed in detail. It was determined that meetings were held in accordance with the Bylaws and that actions were documented within the minutes. No changes to the Articles or Bylaws were made during the period under examination.

## FIDELITY BOND AND OTHER INSURANCE

At December 31, 2009, the Company is a named insured on the financial institution bond issued by the Federal Insurance Company. The bond has an aggregate loss limit of $5,000,000 for loss resulting from dishonest or fraudulent acts committed by an employee. The Company's coverage exceeds the minimum coverage suggested by the NAIC.

The Company is protected from loss against insurable hazards through the Noridian Mutual Insurance Company package of insurance. Coverage includes Directors and Officers Liability.

## PENSION AND INSURANCE PLANS

The Company has no employees and, thus, has no retirement plans, deferred compensation, postemployment benefits, compensated absences or other post retirement benefit plans.

# TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact business only in North Dakota. Its business purpose is to provide vision services to subscribers and their families (members) covered under a group contract.

As of December 31, 2009, the Company served 70,151 total members, which was comprised of 39,753 fully insured and 30,398 self-insured members. This represents an increase of 12,039 members since the previous examination in 2004.

VSI's benefit designs have grown to meet market demands. Employers are able to choose from numerous benefit plans to customize a vision insurance plan that fits their budget and the needs of their employees. The most popular plans include a $100 frame allowance and allow routine eye examinations once per year. In addition, VSI participates in the Healthy Steps program, offering vision services for disadvantaged children (disability or low income).

At the end of 2009, VSI had 195 participating providers.

During the period under examination, premiums written were as follows:

**Premiums Written**

| | 2005 Premiums | 2006 Premiums | 2007 Premiums | 2008 Premiums | 2009 Premiums |
|---|---|---|---|---|---|
| Vision Only | $2,842,855 | $2,867,400 | $3,043,490 | $3,420,109 | $4,339,567 |

## Marketing

VSI uses traditional marketing methods (televisions, radio, internet, etc.). VSI markets by word-of-mouth through existing customers and relationships with the vision care providers.

VSI also markets through Noridian's internal marketing department. Noridian's product distribution system consists of approximately 40 company employed marketing representatives who market VSI's products throughout North Dakota.

## GROWTH OF THE COMPANY

The growth of the Company for the years 2004 through 2009 is shown in the following schedule that lists data reported in the Company's Annual Statements, except for years 2004 and 2009 which represent amounts determined by examination:

| Year | Assets | Liabilities | Capital And Surplus | Total Revenue | Number Member Months | Number of Members |
|---|---|---|---|---|---|---|
| 2004 | $1,882,328 | $ 371,577 | $1,510,751 | $2,721,334 | 415,939 | 34,907 |
| 2005 | 1,805,611 | 324,094 | 1,481,517 | 2,842,855 | 425,706 | 33,743 |
| 2006 | 1,720,398 | 328,359 | 1,392,039 | 2,867,400 | 412,929 | 34,477 |
| 2007 | 1,671,117 | 1,239,788 | 431,329 | 3,043,490 | 437,746 | 39,266 |
| 2008 | 1,037,012 | 383,280 | 653,732 | 3,420,109 | 475,227 | 40,726 |
| 2009 | 1,706,806 | 325,981 | 1,380,825 | 4,339,567 | 475,313 | 39,753 |

The ratio of claims and expenses incurred to premiums earned for years 2004 through 2009 is shown in the following schedule:

| Year | Premiums Earned | Claims Incurred | Loss Ratio | Expenses Incurred | Expense Ratio | Loss and Expense Ratio |
|---|---|---|---|---|---|---|
| 2004 | $2,721,334 | $2,119,610 | 77.9% | $580,590 | 21.3% | 99.2% |
| 2005 | 2,842,855 | 2,303,300 | 81.0% | 637,405 | 22.4% | 103.4% |
| 2006 | 2,867,400 | 2,375,736 | 82.9% | 688,374 | 24.0% | 106.9% |
| 2007 | 3,043,490 | 2,589,422 | 85.1% | 805,722 | 26.5% | 111.6% |
| 2008 | 3,420,109 | 3,030,244 | 88.6% | 869,430 | 25.4% | 114.0% |
| 2009 | 4,339,567 | 2,858,600 | 65.9% | 819,092 | 18.9% | 84.8% |

## Administrative Expenses

For the period 2004 to 2009, the percentage growth of administrative expenses for fully insured business is shown below as compared to growth percentages for premiums earned and claims incurred:

| Year | Premiums Earned | Percent Increase | Claims Incurred | Percent Increase | Administrative Expenses | Percent Increase |
|---|---|---|---|---|---|---|
| 2004 | $2,721,334 | 0.0% | $2,119,610 | 10.3% | $362,503 | 31.4% |
| 2005 | 2,842,855 | 4.5% | 2,303,300 | 8.7% | 476,830 | 31.5% |
| 2006 | 2,867,400 | .9% | 2,375,736 | 3.1% | 507,768 | 6.5% |
| 2007 | 3,043,490 | 6.1% | 2,589,422 | 9.0% | 610,020 | 20.1% |
| 2008 | 3,420,109 | 12.4% | 3,030,244 | 17.0% | 684,366 | 12.2% |
| 2009 | 4,339,567 | 26.9% | 2,858,600 | (5.7)% | 605,510 | (11.5)% |

*Administrative Services Contracts (ASC)*

The Company functions as an administrator for various self-insured plans, providing claim processing services to the plan sponsors which bear the ultimate risk for payment of claims. Claims are paid by the Company and then reimbursement is obtained from the plan sponsor. The Company bears credit risk from the time the claim is paid until reimbursement is received from the plan sponsor. In return for the claim processing services, the Company receives an administrative fee. For some uninsured plans, the Company issues a stop-loss insurance policy in conjunction with the administrative service contract. The stop-loss policy covers claims incurred by the plan sponsor above a minimum amount. Uninsured plans with insurance coverage are classified as partially insured plans. The Company did not report any partially insured plans during the examination period.

The following schedule shows the amount of ASC business transacted during the period under examination:

| Year | ASC Income | ASC Expenses | Administration Fees | Gain/(Loss) |
|---|---|---|---|---|
| 2005 | $1,455,302 | $1,642,519 | $187,217 | $0 |
| 2006 | 1,686,707 | 1,891,572 | 204,865 | 0 |
| 2007 | 2,112,491 | 2,371,061 | 258,570 | 0 |
| 2008 | 2,277,213 | 2,692,742 | 301,831 | (113,698) |
| 2009 | 2,154,486 | 2,583,824 | 370,685 | (58,653) |

## REINSURANCE

The Company neither ceded nor assumed reinsurance during the period of this examination.

## ACCOUNTS AND RECORDS

The Company has contracted with Noridian for accounting, administrative and related services. The contract provides that Noridian be reimbursed by the Company for sales and administrative serves rendered based on reasonable costs.

A trial balance was obtained for the year ending December 31, 2009, and traced to the appropriate assets, liabilities, income, and expense exhibits of the annual statement.

The internal controls were reviewed in conjunction with the review of the Company's key activities.

The Company is audited annually by an outside firm of independent certified public accountants. The work papers of this firm were made available to the Examiners for use in this examination.

Noridian has a Corporate Compliance and Audit Department that reports to the Vice President of Corporate Ethics and Business Practices who, in turn, reports directly to the Board of Directors.

An independent consulting firm was engaged to review the Evaluation of Controls in the Information Systems questionnaire. Results of the evaluation were noted in the Information Technology Report provided to the Company.

## FINANCIAL STATEMENTS

The Financial Statements section includes the following:

Statement of Assets, Liabilities, Surplus and Other Funds, as of December 31, 2009
Statement of Revenue and Expenses for the Year Ended December 31, 2009
Reconciliation of Surplus and Other Funds, January 1, 2005 - December 31, 2009

**North Dakota Vision Services, Inc.**
**Statement of Assets, Liabilities, Surplus and Other Funds**
**as of December 31, 2009**

| | Ledger Assets | Nonadmitted Assets | Net Admitted Assets |
|---|---|---|---|
| Bonds | $ 543,953 | | $ 543,953 |
| Common stocks | 218,660 | | 218,660 |
| Cash | 393,055 | | 393,055 |
| Receivable for securities | 100,000 | | 100,000 |
| Investment income due and accrued | 7,578 | | 7,578 |
| Uncollected premiums | 7,506 | $41 | 7,465 |
| Federal income tax recoverable | 62,503 | | 62,503 |
| Receivables from parent, subsidiaries and affiliates | 373,592 | | 373,592 |
| Totals | $1,706,847 | $41 | $1,706,806 |

**North Dakota Vision Services, Inc.**
**Statement of Assets, Liabilities, Surplus and Other Funds**
**as of December 31, 2009**

| | |
|---|---|
| Claims unpaid | $ 190,000 |
| Unpaid claims adjustment expenses | 9,000 |
| Premiums received in advance | 87,598 |
| General expenses due or accrued | 33,553 |
| Net deferred tax liability | 4,300 |
| Amounts withheld or retained for the account of others | 1,530 |
| Total liabilities | $ 325,981 |
| Unassigned funds (surplus) | 1,380,825 |
| Total liabilities, surplus and other funds | $1,706,806 |

**North Dakota Vision Services, Inc.**
**Statement of Revenue and Expenses**
**for the Year Ended December 31, 2009**

## Underwriting Income

| | | |
|---|---|---|
| Net premium income | $4,339,567 | |
| Total revenues | | $4,339,567 |
| Deductions: | | |
| Hospital/medical benefits | $2,858,600 | |
| Claims adjustment expenses | 213,582 | |
| General administrative expenses | 605,510 | |
| Total underwriting deductions | | 3,677,692 |
| Net underwriting gain or (loss) | | $ 661,875 |

## Investment Income

| | | |
|---|---|---|
| Net investment income earned | $ 30,977 | |
| Net realized capital gains(losses) | (26,401) | |
| Net investment gains(losses) | | 4,576 |
| Net gain or (loss) before federal income taxes | | $ 666,451 |
| Federal income taxes incurred | | (49,414) |
| Net income | | $ 715,865 |

**North Dakota Vision Services, Inc.**
**Reconciliation of Surplus and Other Funds**
**January 1, 2005 through December 31, 2009**

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| Surplus and other funds December 31, prior year | $1,510,752 | $1,481,517 | $1,392,039 | $431,329 | $653,732 |
| Net income(loss) | (17,420) | (106,910) | (964,480) | 274,109 | 715,865 |
| Net unrealized capital gains(losses) | (16,615) | 24,832 | (16,930) | (99,406) | 42,815 |
| Change in net deferred income tax | 4,800 | (7,400) | 233,400 | 54,600 | (251,147) |
| Change in nonadmitted assets | | | (212,700) | (6,900) | 219,559 |
| Net change in surplus and other funds | (29,235) | (89,478) | (960,710) | 222,403 | 727,092 |
| Surplus and other funds December 31, current year | $1,481,517 | $1,392,039 | $431,329 | $653,732 | $1,380,824 |

# CONCLUSION

The financial condition of the Company, as of December 31, 2009, as determined by this examination is summarized as follows:

| | | |
|---|---|---|
| Admitted Assets | | $ 1,706,806 |
| Total Liabilities | $ 325,981 | |
| Unassigned Funds (Surplus) | 1,380,825 | |
| Liabilities, Surplus and Other Funds | | $ 1,706,806 |

The unassigned funds as determined by this examination represent no change from the amount reported in the Company's 2009 Annual Statement. The financial statement differences detected by this examination were not considered material.

Since the last examination conducted as of December 31, 2004, the Company's admitted assets have decreased $175,522, its total liabilities have decreased $45,596, and its surplus and other funds have decreased $129,926.

In addition to the undersigned, contract examiners Dennis Kluk, CFE and Don Gaskill, CFE, of INS Regulatory Insurance Services, Inc., Jenny Jeffers, CISA, AES of Jennan Enterprises and Department staff including Ed Moody, CFE participated in this examination.

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

Respectfully submitted,

Terry Smith, CFE
Examiner-In-Charge
North Dakota Insurance Department

# SUMMARY OF RECOMMENDATIONS

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

It is recommended that the Company amend the Marketing and Administrative Services agreement between Noridian and North Dakota Vision Services, Inc. dated September 23, 1974, to provide for timely settlement of amounts owed, with a specified due date as required by SSAP 25, paragraph 6.