

Statutory Financial Examination of  
**ALASKA VISION SERVICES, INC.**

FE 09-02

as of December 31, 2008

Issued by  
**STATE OF ALASKA**  
**DEPARTMENT OF COMMERCE, COMMUNITY, AND**  
**ECONOMIC DEVELOPMENT**  
**DIVISION OF INSURANCE**

NAIC Company Code: 47201  
NAIC Group Code: 1189

**FINAL REPORT:**  
**March 15, 2010**

STATE OF ALASKA  
DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT  
DIVISION OF INSURANCE  
550 WEST SEVENTH AVENUE, SUITE 1560  
ANCHORAGE, ALASKA 99501-3567  
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CERTIFIED MAIL  
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STATE OF ALASKA  
DEPARTMENT OF COMMERCE, COMMUNITY AND  
ECONOMIC DEVELOPMENT  
DIVISION OF INSURANCE  
550 WEST 7TH AVENUE, SUITE 1560  
ANCHORAGE, AK 99501-3567

Order FE 09-02 )  
In the Matter of Examination of )  
ALASKA VISION SERVICES, INC. )

FINDINGS OF FACT

1. A report of examination of Alaska Vision Services, Inc., domiciled in the State of Alaska, has been issued by the State of Alaska, Division of Insurance, to Alaska Vision Services, Inc.

2. The Report of Examination of Alaska Vision Services, Inc. (FE 09-02) has been transmitted to Mr. James R. Lynch, President, Alaska Vision Services, Inc. (Examinee), and Examinee has been accorded at least 30 days opportunity to review and comment on this Report of Examination. A response from the examinee was received on June 25, 2010.

3. The Director of the Division of Insurance has fully considered and reviewed the report, the examinee response and any relevant portions of the examiner's work papers to the extent she considered necessary.

CONCLUSIONS OF LAW

1. The written Report of Examination referred to in Finding of Fact No. 1 was issued in accordance with Alaska Statute (AS) 21.06.150(b).

2. The actions set forth in finding of Fact No. 2 were conducted in accordance with AS 21.06.150(b).

3. The Director of the Division of Insurance has reviewed the Report of Examination, the examinee response and any other relevant work papers as set forth in Finding of Fact No. 3 to the extent she considered necessary in accordance with AS 21.06.150(b).

STATE OF ALASKA  
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ANCHORAGE, ALASKA 99501-3567  
PHONE: (907) 269-7900  
FAX: (907) 269-7910  
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ORDER

IT IS ORDERED

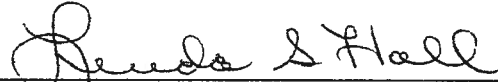
1. Pursuant to AS 21.06.150(b)(1), the Report of Examination of Alaska Vision Services, Inc. (FE 09-02) is approved as filed.

2. Pursuant to AS 21.06.060, the Report of Examination shall be kept in the Office of the Director of the Division of Insurance and be open to public inspection.

3. The Examinee will implement all recommendations within a reasonable amount of time but no later than one year from the issue date of this examination report, unless otherwise recommended in the Report of Examination. Failure to implement compliance recommendations may result in action against the Examinee for violation of this order.

This order is effective June 25, 2010.

Dated this 25 day of June, 2010 at Anchorage, Alaska.



Linda S. Hall, Director  
State of Alaska  
Division of Insurance

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STATE OF ALASKA  
DEPARTMENT OF  
**COMMERCE**  
COMMUNITY AND  
ECONOMIC DEVELOPMENT

Alaska Division of Insurance

Sean Parnell, Governor  
Emil Notti, Commissioner  
Linda S. Hall, Director

March 15, 2010

Ms. Linda S. Hall, Director  
Division of Insurance  
Department of Commerce, Community  
and Economic Development  
State of Alaska  
550 West 7<sup>th</sup> Avenue, Suite 1560  
Anchorage, AK 99501-3567

Dear Director Hall:

In accordance with your instructions and authorizations, and in accordance with statutory requirements, an examination has been made of the financial condition and business affairs of:

ALASKA VISION SERVICES, INC.  
530 7th Avenue  
Fairbanks, AK 99701

(NAIC CoCode 47201; Group Code 01189)

(hereafter referred to as the "Company" or "AVS"), a nonprofit corporation incorporated under the laws of the State of Alaska. The centralized administrative office of the Vision Service Plan network of affiliated companies is located at 3333 Quality Drive, Rancho Cordova, California, 95670.

### **SCOPE OF EXAMINATION**

The previous examination of the Company was conducted as of December 31, 2004. The current examination of AVS covers the four-year period from January 1, 2005 through December 31, 2008, including any material transactions and/or events occurring subsequent to the ending examination date and noted during the course of the examination.

The examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. The Handbook requires that the examination be planned and performed 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, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to Alaska domestic insurers. The examination was also conducted in accordance with the rules, regulations, and directives of the Division of Insurance, State of Alaska (the Division).

Alaska Vision Services, Inc.  
As of December 31, 2008  
FE 09-02

All accounts and activities of the company were considered in accordance with the risk-focused examination process. The examination included: reviewing the Company's compliance with Alaska Statutes and Regulations, reviewing the work papers prepared by the independent certified public accountants, PricewaterhouseCoopers (PwC), in connection with its annual statutory audit, and relying upon them to the extent deemed appropriate, and actuarial evaluation of the reserves as of December 31, 2008 by Katie Campbell, FSA, MAAA, Life/Health Actuary, Alaska Division of Insurance.

Additionally, the Connecticut Insurance Department (CID) was conducting an examination of Vision Service Plan Insurance Company of Connecticut for the five-year period ending December 31, 2008. The Division examiners were able to rely extensively on the work papers of the Connecticut examiners due to the centralized administration and management of the VSP affiliate network.

Comments in this report are generally limited to exceptions noted or to item considered to be of a material nature.

## **SUMMARY OF EXAMINATION FINDINGS**

### **Significant Findings**

During the course of the examination the following significant findings were documented and are included in this report with recommendations:

Quarterly authorization of investments and review of the written investment plan by the board of directors or a committee of the board pursuant to 3 AAC 21.211.

On at least a quarterly basis, the insurer's Board of Directors, or committee of the board, shall receive and review a summary report on the insurer's investment portfolio and shall review the investment activities and practices engaged in under delegated authority to determine if they are consistent with the written investment plan.

This required quarterly review either did not occur, or it was undocumented in the committee minutes. It is recommended that the quarterly board or committee minutes document compliance with this regulation.

### **Attendance at Board Meetings, Appointment and Reporting of Directors**

For the years 2007 and 2008, the VSP annual meeting minutes reported that only six directors were appointed to the board of directors when seven are required by the Bylaws. Also, the 2007 and 2008 duly appointed directors did not attend the annual meetings. Instead, the 2006 directors attended the annual meetings and were reported as current directors in the 2007 and 2008 annual statements instead of the newly appointed directors reported in the minutes.

### **Subsequent Events**

Vision Service Plan of California (VSP), sole owner of AVS, had its federal tax-exempt status revoked prospectively beginning January 1, 2003. Subsequent appeals to the Ninth Circuit Court, resulted in a January 2008 opinion that affirmed the Summary Judgment from December 2005 holding that VSP was not entitled to continued recognition of exemption as a social welfare organization (Section 501(c)(4) of the IRS Code). VSP filed a petition in the U.S. Court of Appeals for a rehearing which was denied on April 9, 2008. VSP then petitioned the U.S. Supreme Court for a final hearing on its federal tax-exempt status. On January 9, 2009, the petition was denied.

The Internal Revenue Service had also been conducting examinations of certain affiliates of VSP and their federal tax exempt status. AVS and eight other affiliates were notified on May 13, 2009 that their tax exempt status was also being revoked retroactively from January 1, 2006. Consequently, as of December 31, 2008, AVS accrued federal income taxes retroactively for the years 2006 through 2008.

VSP and all affiliates are continuing to pursue all legal and administrative options available to appeal or redress both the revocation of Section 501(c)(4) exempt status for VSP and its affiliates, as well as the retroactive revocation of exempt status for the affiliates. In the meantime, the company continues to operate as a non-profit company and is paying income taxes.

## **DESCRIPTION OF COMPANY**

### **Company History**

AVS is an Alaska-domiciled medical service corporation organized pursuant to Title 21, Chapter 87, of the Alaska Statutes. AVS was organized as a nonprofit corporation on April 27, 1965, and received a Certificate of Authority from the State of Alaska, Division of Insurance, effective June 3, 1982, (D-1411), authorizing the company to transact the business of a medical service corporation, (ophthalmology and optometry).

Prior to 1988, AVS operated jointly with Western Vision Services (Washington) and Idaho Vision Service Fund. In 1988, AVS contracted with California Vision Service Plan of Sacramento, California (VSP) for plan administration and VSP became the controlling member. VSP, also known as Vision Service Plan, is a non-stock, nonprofit corporation operating in the State of California, which controls several vision service plans in the United States.

### **Corporate Records**

AVS has agreed to operate under a Consent Judgment and Order (Judgment) entered in the Superior Court for the State of Alaska, Third Judicial District, at Anchorage dated January 21, 1981. This Judgment included orders as follows.

- a) The amended bylaws of AVS shall provide that the Board of Directors would be composed of three members who are licensed optometrists and ophthalmologists, and four consumer representatives who are not licensed optometrists or ophthalmologists.

- b) The Board of Directors shall have exclusive authority to determine the fees paid to providing doctors in consideration for vision services rendered to subscribing members.
- c) In determining the fees paid to providing doctors, the board shall adopt a fee schedule based on usual and customary fees charged by optometrists and ophthalmologists in the community for similar vision services rendered to subscribing and non-subscribing members.
- d) Fee information collected by the board is limited for use solely in determining usual and customary fees.
- e) AVS is permanently enjoined and restrained from, in any manner, directly or indirectly engaging in any other contract, combination, agreement, understanding or concert of action in restraint of trade or commerce.

The Articles of Incorporation and Bylaws were reviewed during this examination. Bylaws in effect during the examination years were the Amended Bylaws, effective April 8, 1999. There were no amendments to the Company's Articles of Incorporation during the period under examination. Annual Board of Director meetings and elections were held each year as required by the Articles and Bylaws.

### **Management and Control**

VSP, a nonprofit California corporation, is AVS's sole voting and controlling member with one vote that can be exercised in person or by proxy. AVS has arranged for use of the VSP federally registered and common law service marks through an Administration and Marketing Agreement dated August 25, 1997. VSP also started providing administrative and managerial services to AVS through an Administration and Marketing Agreement dated February 10, 1998 and amended September 30, 2003.

The Board of Directors is elected by the voting member at the annual meeting. The Board of Directors membership is set by the bylaws at seven. This membership is further limited by paragraph III(B) of the Consent Judgment and Order entered in the Superior Court for the State of Alaska, Third Judicial District, at Anchorage dated January 21, 1981, to three members who are licensed optometrists and ophthalmologists and four consumer representatives who are not licensed optometrists or ophthalmologists. Directors serve until the next annual meeting or until a successor is duly appointed or elected. While seven directors are required, only six members were appointed to the board for both 2007 and 2008. (See current Finding 2.)

Following are the members of the Board of Directors of AVS as of December 31, 2008, according to the minutes of the annual meeting:

<u>Name</u>	<u>Positions Held</u>
James Robinson Lynch	President, Director
Lawrence Donald Price	Vice President, Director
Gary Norman Brooks	Secretary, Director
Patricia Cochran	Treasurer/CFO, Director
Catherine Amos, O.D.	Director
R. David Jones, O.D.	Director



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Pursuant to the annual meeting minutes, the following directors reported in the 2007 and 2008 Annual Statements were not current members of the board: (See current Finding 2.)

James L. Short, O.D.  
L. Bruce Mebine, O.D.  
Dan Mannen, O.D.

The following directors listed in the annual meeting minutes as being appointed in 2007 and 2008 were not reported in the Annual Statements for 2007 and 2008:

Catherine Amos, O.D.  
R. David Jones, O.D.

After discrepancies in reported directors and annual meeting minutes for 2007 and 2008 were identified during the examination, the Company stated that the 2007 and 2008 meeting minutes were wrong. The intention was to reappoint the 2006 directors in 2007 and 2008, not to appoint new directors. (See current Finding 2.) The 2006 directors attended the annual meetings and were reported in the annual statements for those years.

The officers of AVS at December 31, 2008, are as follows:

<u>Name</u>	<u>Position Held</u>
James Robinson Lynch	President
Lawrence Donald Price	Vice-President
Gary Norman Brooks	Secretary
Patricia Cochran	Treasurer

As of December 31, 2008, AVS was affiliated with the following insurance companies or vision care plans by virtue of control by VSP (CA):

Wholly-Owned, Non-Stock, Non-Profit Corporations

Vision Service Plan (HI)  
Vision Service Plan of Idaho, Inc. (ID)  
Vision Service Plan of Illinois, NFP (IL)  
Indiana Vision Services, Inc. (IN)  
Massachusetts Vision Service Plan (MA)  
Vision Service Plan, Inc. (NV)  
New Hampshire Vision Service Corp. (NH)  
Eastern Vision Service Plan, Inc. (NY)  
Vision Service Plan (OH)  
Vision Services Plan, Inc., Oklahoma (OK)  
Southwest Vision Service Plan, Inc. (TX)  
Mid-Atlantic Vision Service Plan, Inc. (VA)  
Vision Service Plan (WA)  
Wisconsin Vision Service Plan, Inc. (WI)  
Wyoming Vision Service Plan (WY)  
VSP Vision Care Association (Canada)

Wholly-Owned Stock Non-Profit Corporations

Eastern Vision Service Plan IPA, Inc. (NY)  
Vision Service Plan Insurance Company (CT)  
Vision Service Plan Insurance Company (MO)

AVS signed an amended "Administration and Marketing Agreement" with VSP effective January 1, 2008 in which VSP was appointed to provide all administrative and marketing services and expertise required to operate AVS and to market AVS vision health plans to non-subscriber groups in Alaska. In consideration for these rights and services, VSP receives a per-claim charge which is calculated by dividing the total General and Administrative expenses of the VSP network, that are not specifically identified to an affiliate, by the total number of network claims.

Each affiliate pays the per-claim charge for each of its claims. Payments to VSP are required by the last day of the following month, or no later than 90 days from the date of notice of amounts due.

### **Fidelity Bond and Other Insurance**

AVS is a named joint-insured on a fidelity bond underwritten by St Paul Fire & Marine Insurance Company for the examination period. The bond provides for \$2,000,000 single loss limit of liability with a single loss retention of \$75,000, and aggregate limit of \$4,000,000. However, as AVS does not have any employees or fixed assets, with all administrative services provided by VSP, the bonding requirements of AS 21.87.310 and the NAIC minimum recommended fidelity coverage do not apply. Further, all officers of AVS are officers and employees of VSP and are thereby covered by the fidelity bond described above.

The Company is also a named joint-insured on various other insurance policies, which provide coverage for commercial liability, managed care liability, umbrella and excess liability, and directors and officers liability. All policies except for the commercial liability and the umbrella and excess liability policies, specify retentions of at least \$75,000. Because AVS owns no fixed assets, insurance coverage providing protection for fixed assets is not necessary.

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

AVS is an Alaska-domiciled medical-service corporation. Its primary purpose is to provide prepaid vision services to individuals residing and working in the State of Alaska. However, AVS has also arranged for reciprocal vision services required by beneficiaries when they are located in other states.

Under the Administration and Marketing Agreement described above, VSP provides all marketing services to AVS and markets AVS plans to non-subscriber beneficiary groups in Alaska. These marketing services include, but are not limited to, providing all sales and marketing personnel with needed support to maximize sales, provide marketing training to the sales personnel of AVS, and paying all of AVS's normal operating expenses.

**Growth of Company**

The following schedule shows the annual results of the company's operations for the year ended December 31, 2004, the date of the last triennial examination, through December 31, 2008. The figures are as reported in the company's annual statements.

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital &amp; Surplus</u>	<u>Total Revenues</u>	<u>Claims Incurred</u>	<u>Net Income or Loss</u>
2004	2,864,036	370,264	2,493,772	2,029,434	1,608,916	341,012
2005	3,382,712	420,369	2,962,343	2,683,585	2,241,612	466,529
2006	4,076,078	399,784	3,676,294	2,737,441	1,991,130	711,851
2007	4,961,902	454,068	4,507,834	3,118,179	2,292,643	831,612
2008	5,931,446	1,251,739	4,679,707	3,433,617	2,411,159	121,881

Pursuant to AS 21.87.210, as a medical-service corporation AVS is required to maintain a minimum surplus fund of \$50,000. For each of the years under examination, AVS maintained a separate write-in \$50,000 statutory reserve as part of Capital and Surplus.

**Loss Experience**

The following schedule shows the loss experience of the Company during the period of examination:

<u>Year</u>	<u>Premiums Earned</u>	<u>Claims Incurred</u>	<u>Ratio</u>	<u>Claim Expenses Incurred</u>	<u>Ratio</u>
2005	2,683,585	2,241,612	83.5%	19,793	0.74%
2006	2,718,404	1,991,130	73.2%	12,580	0.46%
2007	3,101,233	2,292,643	73.9%	14,250	0.46%
2008	3,379,191	2,411,159	71.4%	12,864	0.38%

**Reinsurance**

During the fiscal years ending December 31, 2005, 2006, 2007 and 2008, AVS had no reinsurance arrangements.

**Accounts and Records**

The AVS books and records are maintained on various data processing software systems maintained by VSP under the terms of the Administration and Marketing Agreement. VSP's data processing systems and software are located at VSP's home offices in Rancho Cordova, California.

**Statutory Deposits**

Medical Service Corporations are not required to maintain statutory deposits in Alaska. Instead, they are required by AS 21.87.210 to maintain a special surplus fund of not less than \$50,000. The fund can be increased, however, AVS has maintained this amount for each year covered by this examination.

### **SUMMARY OF ACTUARIAL REVIEW**

Katie Campbell, FSA, MAAA, Life/Health Actuary for the Alaska Division of Insurance, reviewed the adequacy of the loss and loss adjustment expense reserves as of December 31, 2008. The review relied upon information provided by the Company of which the underlying claim and premium data was examined by the division examination team. She also reviewed the actuarial opinion and memorandums supporting the opinions prepared by the independent appointed actuary, Frederick Kilbourne of The Kilbourne Company, for each year 2006, 2007 and 2008. Additionally, she reviewed the reserve estimate prepared by the independent auditor, PricewaterhouseCoopers (PwC), for 2008. The claim reserves carried by the Company were higher than the reserve estimates of the independent actuary for 2006 – 2008 and of PwC for 2008. Ms. Campbell's review of the claim run-off experience showed that reserves were adequate in each year 2006 – 2008.

AVS held reserves that were conservative relative to the independent actuary and to PwC estimates. Ms. Campbell concluded that more conservative reserves are appropriate for small blocks of business such as Alaska's which are more volatile.

### **FINANCIAL STATEMENTS**

The following pages contain the statutory financial statements of Alaska National Insurance Company as of December 31, 2008, as reported to the Division and as determined by the examiners.

**FINANCIAL STATEMENTS**  
**STATEMENT OF ASSETS, LIABILITIES AND SURPLUS**  
As of December 31, 2008

	<u>As Reported</u> <u>12/31/2008</u>	<u>Adjustments</u>	<u>Per Exam</u> <u>12/31/2008</u>
<u>Assets</u>			
Bonds	\$ 3,607,165		\$ 3,607,165
Cash & short-term investments	1,808,010		1,808,010
Investment income due and accrued	22,438		22,438
Premiums and agents' balances in course of collection	87,310		87,310
Amounts receivable relating to uninsured plans	356,602		356,602
Net deferred tax asset	49,921		49,921
Total Admitted Assets	<u>\$ 5,931,446</u>		<u>\$ 5,931,446</u>
<u>Liabilities, Surplus and Other Funds</u>			
<u>Liabilities</u>			
Claims unpaid	\$ 166,716		\$ 166,716
Unpaid claim adjustment expenses	1,626		1,626
Premiums received in advance	921		921
General expenses due or accrued	175,815		175,815
Current federal income tax payable	827,384		827,384
Amounts due to parent, subsidiaries and affiliates	53,837		53,837
Liability for amounts held under uninsured plans	7,045		7,045
Premium taxes, license and miscellaneous fees	18,395		18,395
Total Liabilities	<u>\$ 1,251,739</u>		<u>\$ 1,251,739</u>
<u>Surplus</u>			
Aggregate write-ins for other than special surplus funds – Statutory Reserve	\$ 50,000		\$ 50,000
Unassigned funds (surplus)	4,629,707		4,629,707
Surplus as regards policyholders	<u>\$ 4,679,707</u>		<u>\$ 4,679,707</u>
Total Liabilities and Surplus	<u>\$ 5,931,446</u>		<u>\$ 5,931,446</u>

**FINANCIAL STATEMENTS**  
**STATEMENT OF UNDERWRITING AND INVESTMENT**  
As of December 31, 2008

	<u>As Reported</u> <u>12/31/2008</u>	<u>Adjustments</u>	<u>Per Exam</u> <u>12/31/2008</u>
<u>Underwriting Income Revenue</u>			
Net premium income	\$ 3,379,191		\$ 3,379,191
Fee-for-service (net of \$459,610 medical expenses)	54,426		54,426
Total Revenue	<u>\$ 3,433,617</u>		<u>\$ 3,433,617</u>
<u>Deductions</u>			
Other professional services (Claims expenses)	\$ 2,411,159		\$ 2,411,159
Claims adjustment expenses	12,864		12,864
General administrative expenses	<u>163,622</u>		<u>163,622</u>
Total underwriting deductions	<u>\$ 2,587,645</u>		<u>\$ 2,587,645</u>
Net underwriting gain or (loss)	<u>\$ 845,972</u>		<u>\$ 845,972</u>
<u>Investment Income</u>			
Net investment income earned	\$ 147,663		\$ 147,663
Net realized capital gains or (losses)	<u>0</u>		<u>0</u>
Net investment gain or (loss)	<u>\$ 147,663</u>		<u>\$ 147,663</u>
Net income before federal income tax	\$ 993,635		\$ 993,635
Federal income tax incurred	<u>871,754</u>		<u>871,754</u>
Net income (Loss)	<u>\$ 121,881</u>		<u>\$ 121,881</u>
<u>Capital and Surplus Account</u>			
Surplus, December 31, prior year	<u>\$ 4,507,834</u>		<u>\$ 4,507,834</u>
<u>Gains and (Losses) in Surplus</u>			
Net Income (Loss)	\$ 121,881		\$ 121,881
Change in net deferred income tax asset	49,921		49,921
Change in non-admitted assets	<u>71</u>		<u>71</u>
Net change in surplus as regards policyholders	<u>\$ 171,873</u>		<u>\$ 171,873</u>
Surplus for the period ended, December 31, 2008	<u>\$ 4,679,707</u>		<u>\$ 4,679,707</u>

**FINANCIAL STATEMENTS**  
**STATEMENT OF CAPITAL AND SURPLUS ACCOUNT**  
As of December 31, 2008

	Statutory	SURPLUS		TOTAL
	Reserve <sup>(1)</sup>	Paid-In	Unassigned	
Balance at December 31, 2004	\$ 50,000	\$ 0	\$ 2,443,772	\$ 2,493,772
Net income – 2005			466,529	466,529
Net unrealized capital gains or (losses)			0	0
Change in non-admitted assets			(2,100)	(2,100)
Aggregate write-ins for gains or (losses) in surplus			4,142	4,142
Balance at December 31, 2005	\$ 50,000	\$ 0	\$ 2,912,343	\$ 2,962,343
Net Income – 2006			711,850	711,850
Net unrealized capital gain			0	0
Change in non-admitted assets			2,100	2,100
Balance at December 31, 2006	\$ 50,000	\$ 0	\$ 3,626,293	\$ 3,676,293
Net income – 2007			831,612	831,612
Net unrealized capital loss			0	0
Change in non-admitted assets			(71)	(71)
Balance at December 31, 2007	\$ 50,000	\$ 0	\$ 4,457,824	\$ 4,507,834
Net Income – 2008			121,881	121,881
Net unrealized capital gain			0	0
Change in net deferred income tax			49,921	49,921
Change in non-admitted assets			71	71
Balance at December 31, 2008	<u>\$ 50,000</u>	<u>\$ 0</u>	<u>\$ 4,629,697</u>	<u>\$ 4,679,707</u>

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS  
RESULTING FROM THE EXAMINATION**

No changes have been made to the financial statements as a result of this examination.

**COMPLIANCE WITH RECOMMENDATIONS IN  
PRIOR REPORT OF EXAMINATION**

During the examination, the following recommendation in the prior report of examination was found to have been implemented or the issue was no longer present:

Prior Finding 3 – Approval of Reserve Methodology

The following prior findings were not resolved during the current examination:

Prior Finding 1 – Corporate Governance Issues

The prior two examination reports issued by the division identified findings with respect to corporate governance issues. A corporate governance finding remains in the current examination. None of the eye-care profession members of the board of directors were present at any of the board of directors' annual meetings held in 2002, 2003, or 2004 nor did they attend the special meetings called during the examination years. In particular, Dr's Dobson, Jones, and Amos were listed as absent for all three annual board of directors' meetings. Since the January 21, 1981 judgment requires governance by a board which includes three ophthalmologists or optometrists, the actions of the board of directors are not in compliance with these requirements. It is strongly reiterated that governance cannot be provided by continually absent members.

Pursuant to the date of the examination, but during the examination period, the board voted to replace the non-participating eye-care professional members with eye-care professionals that are expected to be more participative in the governance of the Company.

Prior Recommendation: It is strongly recommended that attendance at board of director meetings be significantly improved.

Current Status: Attendance at the 2005 and 2006 annual meetings of the board of directors was 100%. However, discrepancies between the annual meeting minutes and the attendance of the licensed practitioner board members in 2007 and 2008 occurred as follows: (1) pursuant to the annual meeting minutes for 2007 and 2008, the licensed-practitioner board members from 2006 attended these meetings rather than the appointed directors listed in the minutes; and (2) the minutes reported that only six directors were appointed in these years even though the Bylaws require that there be seven directors. Additionally, the 2006 directors were reported in the 2007 and 2008 annual statements rather than the newly appointed directors. See current Finding 2.

Prior Finding 2 – Investments Approval

Pursuant to 3 AAC 21.480, a "corporate minutes book" must include the minutes of all meetings of the board of directors and the investment committee required under AS 21.21.040. The minutes of the board of directors must include all (1) resolutions adopted and acts taken by the



board of directors; and (2) resolutions adopted by a subcommittee of the board that must be adopted or approved by the board or a subcommittee of the board under AS 21.

At each year's annual meeting for the period under review, the Company's Board of Directors approved "investment transactions of Alaska Vision Services that have occurred since the last meeting;" however, no list of the approved transactions was attached or maintained in the Minutes Record of the Board of Directors for any of the years under examination.

Prior Recommendation: It is recommended that the Board of Directors of the Company maintain a listing of approved investment transactions in the corporate minutes record.

Current Status: The Company does maintain detailed records of investment transactions approved at the annual meetings in the corporate minutes book which satisfies the recommendation of the prior examination. However, the current examination did identify other related exceptions concerning approvals of investments. The Finance Committee of VSP meets quarterly and monitors and reviews investments of VSP and its affiliates. The minutes of the quarterly finance committee meetings did not document that it performed a review of investment transactions for AVS including a review of the investment plan as required by 3 AAC 21.211(c). Also, while the annual meeting minutes of the board of directors of AVS did document approval of the year's investment transactions, it did not pass a formal resolution each year (as required by 3 AAC 21.211(b)). See current Finding 1.

## **EXAMINATION FINDINGS AND RECOMMENDATIONS**

### **Finding 1 – Authorization of Investment Transactions and Written Plan**

Pursuant to 3 AAC 21.211, the board of directors shall evidence by formal resolution, at least annually, that it has determined that each investment has been made in accordance with delegations, standards, limitations and investment objectives prescribed by the board of directors or a committee of the board of directors that is charged with the responsibility to direct its investments.

Also, on at least a quarterly basis, an insurer's board of directors, or committee of the board, shall receive and review a summary report on the investment portfolio, the insurer's activities, and the insurer's investment practices engaged in under delegated authority to determine whether the portfolio activities and practices are consistent with the insurer's written plan and, review and revise the written plan as appropriate.

The AVS board of directors does document in its annual meeting minutes that the investment transactions for the prior year were approved. However, it does not pass a formal resolution that states that the board has determined that each investment has been made in accordance with delegations, standards, limitations, and investment objectives prescribed by the board of directors. The VSP Finance Committee meets quarterly and is responsible for monitoring the investment activity of the entity and its affiliates. The minutes of the Finance committee do not document that it formally approves the investment transactions quarterly. Also, it does not review the written plan quarterly for consistency or for any revisions that may be appropriate.

The prior examination reported an exception concerning recordkeeping on the approval of investments. See prior Finding 2.

Recommendation: It is recommended that the AVS Board of Directors pass an annual resolution that approves investment transactions as required by 3 AAC 21.211(b); and, that the Finance Committee of VSP or the AVS Board of Directors conduct quarterly reviews of investment transactions and practices compared to the written plan as required by 3 AAC 21.211(c).

### Finding 2 – Appointment of Directors and Annual Statement Reporting

The Bylaws, and a 1981 Consent Judgment, require that AVS has seven directors consisting of four consumer representatives and three licensed practitioners. The minutes of the annual meetings of AVS for 2007 and 2008 stated that only six directors (including only two licensed practitioners) were appointed at the annual meetings. Pursuant to the minutes maintained in the corporate records, the membership of the board did not comply with the requirements of the Bylaws or with the 1981 Consent Judgment. Also, based on the minutes of the annual meetings for 2007 and 2008, it appeared that the licensed-practitioner members of the board who attended the annual meetings were not the ones who were appointed in those years. Instead, the 2006 licensed-practitioner directors attended the meetings and were reported as directors in the annual statements for 2007 and 2008.

After these discrepancies were noted during the examination, the Company stated that it had been the intention of the board of VSP to reappoint the 2006 directors for the years 2007 and 2008, not to appoint new directors. The Company has indicated that it is taking actions to correct errors where possible and to implement a process that will avoid such discrepancies in the future.

The prior exam also contained an exception concerning inadequate attendance of the practitioner board members at board meetings. See prior Finding 1.

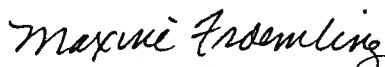
Recommendation: It is recommended that the Company implement effective procedures for appointments of directors that complies with the bylaws and that the corporate record book documents board appointments accurately.

**CLOSING**

This examination was conducted in accordance with practices and procedures promulgated by the NAIC. This examination also includes a compliance review of applicable Alaska Statutes.

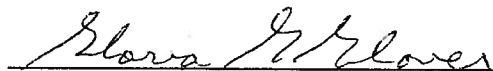
In addition to the undersigned from the Alaska Division of Insurance, Katie Campbell, FSA, MAAA, Life/Health Actuary for the Alaska Division of Insurance performed the actuarial review. Also participating in the examination from RSM McGladrey, Inc. were the following: Cathie Stewart, CPA, CFE and Director; David Crandall, CPA, CFE and Manager; and, Mary Hartell, CIE, FLMI and Supervisor. We wish to express our appreciation for the courteous cooperation and assistance extended to us by the management and staff of Alaska Vision Services, Inc. during the course of this examination.

This report is respectfully submitted,



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Maxine L. Froemling, CFE  
Examiner-in-Charge



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Gloria G. Glover, CFE  
Chief Financial Examiner

AFFIDAVIT

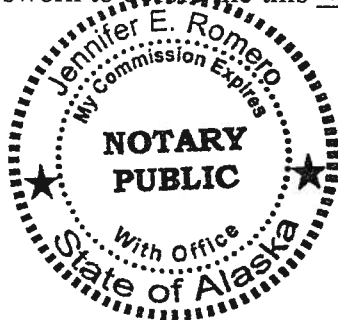
Anchorage, Alaska )  
May 25, 2010 )  
STATE OF ALASKA )  
THIRD JUDICIAL DISTRICT )

We, the undersigned, being duly sworn, do verify that the report of examination as of December 31, 2008, of Alaska Vision Services, Inc., an Alaska domiciled company holding Certificate of Authority #D-1411, is true to the best of our knowledge and belief.

Maxine L. Froemling  
Maxine L. Froemling, CFE  
Examiner-in-Charge

Gloria G. Glover  
Gloria G. Glover, CFE  
Chief Financial Examiner

Subscribed and sworn to before me this 27<sup>th</sup> day of May, 2010.



Jennifer E. Romero  
Notary Public for the State of Alaska  
My commission expires: with office