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Attorneys for Department of Insurance

FILED

JUN 20 2008

Department of Insurance
State of Idaho

BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE

STATE OF IDAHO

IN THE MATTER OF:	)	
	)	
Vision Service Plan of Idaho, Inc.	)	ORDER ADOPTING
	)	REPORT OF EXAMINATION
Idaho Certificate of Authority: 1902	)	AS OF DECEMBER 31, 2006
NAIC Company Code: 47783	)	
	)	Docket No. 18-2473-08
	)	
	)	
	)	
	)	

The Report of Examination as of December 31, 2006 (Report) of *Vision Service Plan of Idaho, Inc.* (Company) was completed by an examiner of the Idaho Department of Insurance (Department) and signed the 23rd day of May 2008 by the Examiner-in-Charge, Kelvin Ko, CFE. The verified (attested) copy of the Report was filed with the Department effective May 23, 2008. Previously, a draft copy of the Report was delivered to the Company, with the verified Report being transmitted to the Company

electronically (PDF file, via e-mail) on May 23, 2008 to Ms. Laura Olson, Assistant Controller. The verified Report is attached hereto and incorporated herein as Exhibit A.

WAIVER

Attached hereto and incorporated herein as Exhibit B, is a Waiver executed by Ms. Patricia Cochran, Chief Financial Officer and Treasurer, on June 4, 2008 and received at the Department via U.S. first class mail on June 9, 2008. Based upon the Waiver/Exhibit B, this is a final order, and the Company has waived its rights to seek reconsideration and judicial review of this order.

ORDER

NOW THEREFORE, after carefully reviewing the above described Report of Examination, attached hereto as Exhibit A, and good cause appearing therefor, it is hereby ordered that the above described report, which includes the findings, conclusions, comments and recommendations supporting this order, is hereby ADOPTED as the final examination report and as an official record of the Department under Idaho Code § 41-227(5)(a).

DATED and EFFECTIVE at Boise, Idaho this 20TH day of June 2008.

William W. Deal, Director
IDAHO DEPARTMENT OF INSURANCE

CERTIFICATE OF SERVICE

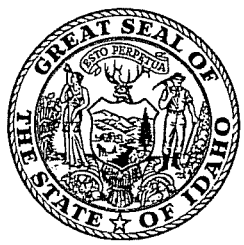
I hereby certify that on this 20th day of June 2008, I caused to be served the foregoing document on the following parties in the manner set forth below:

Ms. Patricia Cochran, CFO & Treasurer Vision Service Plan of Idaho, Inc. 3333 Quality Drive Rancho Cordova, CA 95670	X 	certified mail first class mail hand delivery Facsimile e-mail
Ms. Laura Olson, Assistant Controller Vision Service Plan of Idaho, Inc. 3333 Quality Drive Rancho Cordova, CA 95670 e-mail: laurol@vsp.com	 X	certified mail first class mail hand delivery Facsimile e-mail
Georgia Siehl, CPA, CFE Bureau Chief / Chief Examiner Idaho Department of Insurance 700 W. State St., 3rd Floor Boise, Idaho 83720-0043 e-mail: Georgia.Siehl@doi.idaho.com	 X X	certified mail first class mail hand delivery facsimile e-mail

William R. Michels, MBA, CPA, CFE
Examination Supervisor
IDAHO DEPARTMENT OF INSURANCE

DEPARTMENT OF INSURANCE

STATE OF IDAHO



REPORT OF EXAMINATION

of

VISION SERVICE PLAN OF IDAHO, INC.

(A domestic non-profit, non-stock professional service corporation)

NAIC Company Code: 47783

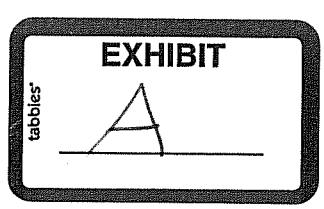
as of

December 31, 2006

FILED 5/23/08 kg
date initial

ADOPTED 6/20/08 kg
date initial

STATE OF IDAHO
Department of Insurance



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State of Idaho
DEPARTMENT OF INSURANCE

C.L. "BUTCH" OTTER
Governor

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WILLIAM W. DEAL
Director

Rancho Cordova, California
May 23, 2008

The Honorable William W. Deal
Director of Insurance
State of Idaho
700 West State Street
Boise, Idaho 83720

Dear Director:

Pursuant to your instructions, in compliance with Idaho Code Sections 41-219(1) and 41-3426, and in accordance with generally accepted examination practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2006 of:

Vision Service Plan of Idaho, Inc.
1401 Shoreline Drive, Suite 2
Boise, Idaho 83702

hereinafter referred to as the "Corporation" at its administrative office located at 3333 Quality Drive, Rancho Cordova, California 95670.

The following Report of Examination is respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period January 1, 2002, through December 31, 2006. The examination was conducted in accordance with Sections 41-219(1) and 41-3426, Idaho Code, the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*, and the NAIC *Accounting Practices and Procedures Manual*. We performed our testing in order to achieve a confidence level commensurate with the risk assessed through utilization of the NAIC *Examiners Handbook*. Verification and valuation of assets, determination of liabilities and reserves, and an analysis and review of such other accounts and records as appropriate to the examination were also performed. There was some reliance placed on the 2006 certified public accountant's statutory audit report and work papers during the examination of the Corporation.

A letter of representation attesting to the Corporation's ownership of all assets and to the nonexistence of unrecorded liabilities or contingent liabilities was signed by and received from management.

In addition to the Report of Examination, the Department issued a Management Letter to the Corporation which covered items that were not included in the Report due to the examination materiality threshold or items that were related to proprietary, operational issues.

PRIOR EXAMINATION

A review was made to ascertain what action was taken by the Corporation with regard to comments and recommendations made by the Department in the prior exam report. Unless otherwise mentioned in the COMMENTS AND RECOMMENDATIONS section of this report, the prior report exceptions were adequately addressed by the Corporation.

HISTORY AND DESCRIPTION

The Corporation was organized and incorporated as a non-profit, non-stock professional service corporation on January 26, 1968, under the laws of the State of Idaho. The Corporation commenced business as Idaho Vision Services, Inc. on April 1, 1968.

The Articles of Incorporation were amended and restated in 1990, whereby Vision Service Plan (VSP), formerly California Vision Service, a nonprofit California corporation, became the Corporation's sole member. The amendment was approved by the Department of Insurance on July 20, 1990.

The Articles of Incorporation were amended and restated effective May 27, 1993, whereby the name of the Corporation was changed from Idaho Vision Services, Inc., to Vision Service Plan of Idaho, Inc. This amendment was approved by the Department of Insurance on September 7, 1993. The Bylaws were also amended May 6, 1993, to reflect the name change and were accepted as filed by the Department of Insurance on September 7, 1993.

On May 26, 1998, the Bylaws were amended to require panel members to render services to subscribers as well as recipients and beneficiaries of the Corporation's social welfare and community benefit programs. Further comments relating the changes in the Bylaws are included under the caption, CORPORATE RECORDS.

The Internal Revenue Service (IRS) has been conducting an examination of Vision Service Plan (VSP), the company's parent, and certain affiliates with regard to their tax-exempt status under Section 501(c)(4) of the Internal Revenue Code. In August 2002, the IRS issued a technical advice memorandum stating that VSP no longer qualifies for tax exempt status because it had not established that it operated primarily for the purpose of bringing about civic betterment and social improvement. The IRS considered that VSP provides benefits primarily to its enrollees and that its activities were similar in nature to activities carried on by for-profit businesses. As a result, VSP was formally notified on October 22, 2002 that the IRS has revoked its tax-exempt status, effective for the tax year beginning January 1, 2003. Consequently, VSP began recording federal and California state income taxes in 2003. On September 24, 2004, VSP filed an action for refund of federal income tax and interest for the tax year ended December 31, 2003 in the United States District Court for the Eastern District of California challenging the IRS on its revocation of tax exemption. The court granted summary judgment in favor of the United States on December 12, 2005. VSP filed a notice of appeal of this decision on February 17, 2006. On January 30, 2008, the U.S. Court of Appeals for the Ninth Circuit released their opinion affirming the decision in the above summary judgment holding that VSP was not entitled to continued recognition of exemption as a social welfare organization. Legal counsel for VSP is determining its next step as it awaits court dates for the cases being pursued in the U.S. District Court, Southern District of Ohio, for certain Corporation affiliates.

The Corporation expects the IRS to revoke its tax-exempt status. Had the Corporation been taxable beginning on January 1, 2003, taxes of approximately $1,514,000 would have been incurred through December 31, 2006 ($2,638,000 through December 31, 2007). However, the Corporation believes, based upon advice from tax counsel, that a revocation of the tax-exempt status would likely be on a prospective basis. Therefore, no provision for taxes has been made.

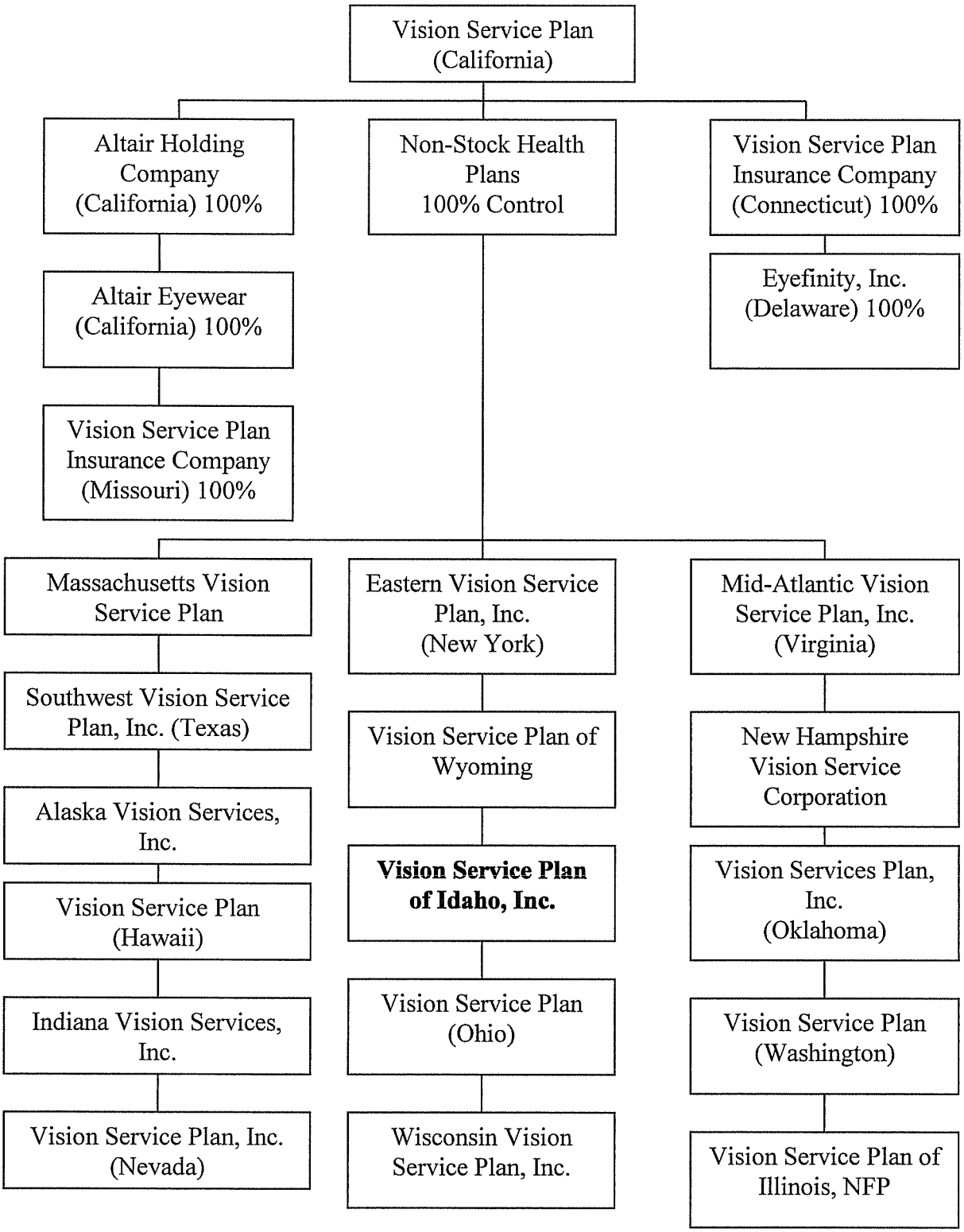
MANAGEMENT AND CONTROL

Insurance Holding Company System

The Corporation was a member of an insurance holding company system as defined in Section 41-3801, Idaho Code. The ultimate controlling person was Vision Service Plan (VSP), formerly California Vision Service, a California non-profit corporation. Corporation records indicated that no one person or entity had the power to direct the management of the ultimate parent.

The Corporation's Form B Registration Statements have been timely filed with the Idaho Department of Insurance for the period under examination.

The following organizational chart identifies corporations controlled or owned by VSP as of December 31, 2006:


Vision Service Plan (California)
Altair Holding Company (California) 100%
Non-Stock Health Plans 100% Control
Vision Service Plan Insurance Company (Connecticut) 100%
Altair Eyewear (California) 100%
Eyefinity, Inc. (Delaware) 100%
Vision Service Plan Insurance Company (Missouri) 100%
Massachusetts Vision Service Plan
Eastern Vision Service Plan, Inc. (New York)
Mid-Atlantic Vision Service Plan, Inc. (Virginia)
Southwest Vision Service Plan, Inc. (Texas)
Vision Service Plan of Wyoming
New Hampshire Vision Service Corporation
Alaska Vision Services, Inc.
Vision Service Plan of Idaho, Inc.
Vision Services Plan, Inc. (Oklahoma)
Vision Service Plan (Hawaii)
Vision Service Plan (Ohio)
Vision Service Plan (Washington)
Indiana Vision Services, Inc.
Vision Service Plan, Inc. (Nevada)
Wisconsin Vision Service Plan, Inc.
Vision Service Plan of Illinois, NFP

Members

As provided in the amended and restated Articles of Incorporation and the Bylaws, VSP was the Corporation's sole member. The Bylaws further provided that the member shall have one vote, which can be exercised in person or by proxy.

Directors

The following persons were duly elected members of the Board of Directors at December 31, 2006:

Name and Business Address	Principal Occupation
James Robinson Lynch Rancho Cordova, California.	President and Chief Executive Officer Vision Service Plan
Gary Norman Brooks Rancho Cordova, California	Senior Vice President - Operations Vision Service Plan
Patricia Cochran Rancho Cordova, California	Vice President - Finance, Chief Financial Officer and Treasurer Vision Service Plan
Lawrence Donald Price Rancho Cordova, California	Vice President - Professional Relations Vision Service Plan
Cheryl Ann Johnson Rancho Cordova, California	Vice President – Health Care Services Vision Service Plan

Officers

The following persons were serving as officers at December 31, 2006:

James R. Lynch	President
Gary N. Brooks	Vice-President and Secretary
Patricia Cochran	Chief Financial Officer and Treasurer

Conflict of Interest

On December 13, 1993, the Board of Directors adopted a conflict of interest policy whereby each of the directors, officers and responsible employees were required to annually complete a disclosure statement of any conflicts or possible conflicts with the performance of their duties and responsibilities. Conflict of interest statements completed during this examination period (2002-2006) were reviewed. They appeared to appropriately disclose any possible conflicts of interest.

Contracts and Agreements

An Administration and Marketing Agreement was amended and executed on February 10, 1998 between the Corporation and its parent, Vision Service Plan (VSP). The following summarized the agreement which was in effect as of December 31, 2006:

Administration and Marketing Agreement

Under terms of the agreement, the Corporation was granted a non-exclusive license to use VSP's federally registered service marks.

VSP provided for all administrative, marketing services and expertise required to operate the Corporation and to market its vision service plans to non-subscriber beneficiary groups. In connection with this, the following services were rendered:

1. All administrative services including, but not limited to:
   a) Pay all accounts payable, including claims of subscribers, doctors, and optical laboratories.
   b) Collect accounts receivable.
   c) Maintain accurate records of all transactions and maintain separate books and records, and prepare quarterly and annual financial statements.
   d) Engage an independent CPA to audit and report on the combined financial statements of the Corporation.
   e) Retain books and records required to be maintained by state and federal laws.

2. Marketing Services:
   a) Provide all sales/marketing personnel with needed support.
   b) Provide marketing training to the sales staff.
   c) Pay all normal operating expenses and all recurring and routine expenses incurred in the ordinary conduct of business, such as salaries, other compensation, and business and travel expenses of employees of VSP.
   d) Provide all necessary services relating to Corporation's social welfare or community benefit activities, such as charitable or educational.

Under the agreement, the Corporation agreed to: maintain a panel of doctors to service vision/eye care needs; use a standard panel doctor agreement, which may be modified to meet local conditions; maintain organizational capacity to market/administer vision care services and to maintain an active sales program; and maintain a system for reviewing patient satisfaction.

Under terms of the agreement, the Corporation's panel of doctors provided vision care services and materials to patients covered by VSP and other vision care plans licensed by VSP. Procedures for these services, known as reciprocal services, were identified in the agreement.

In consideration for services specified in the agreement, the Corporation paid to VSP a per claim charge equal to the total general and administrative expenses of VSP and its subsidiaries, excluding specifically charged expenses such as, but not limited to: commissions, taxes, audit and legal fees, divided by the total number of claims paid.

The agreement may be terminated without cause by either party upon sixty days prior written notice.

The above administrative and marketing agreement was revised on December 31, 2007. The purpose of the revision was to add language required by Statement of Statutory Accounting Principles (SSAP) No. 96 relating to monthly settlement of inter-company charges and to remove or replace language or provisions relating to VSP's trademarks. The Corporation did not submit the revised agreement to the Idaho Department of Insurance for approval 30 days prior to the effective date; this was in violation of Idaho Code Section 3807(2)(d). Upon recommendation by the examiner, the Corporation submitted the revised administration and marketing agreement to the Idaho Department of Insurance on March 13, 2008. An approval letter was received from the Idaho Department of Insurance on March 24, 2008. It is recommended that in the future the Corporation submit such agreements to the Department in a timely manner pursuant to Idaho Code Section 41-3807(2)(d).

CORPORATE RECORDS

Bylaws

Effective June 14, 1999, the Corporation made amendments to the Bylaws as follows:

1) An introductory section, Purpose Declaration, was added to help define the mission statement of the Corporation.
2) Article IV, Section 1 was further defined to say, "Any two (2) or more offices may be held by the same person, except the offices of President and Secretary."
3) Article IV, Section 4 was amended to correct the prior language and removal procedures. The Directors may be removed from office by a vote of the Member, and the Officers may be removed by a majority vote of the Board of Directors.
4) Article IV, Section 7 was amended for gender purposes to more precisely reflect the makeup of the Board of Directors and Offices.

On May 4, 2002, the above amendments to the Bylaws were submitted to the Idaho Department of Insurance as required by Section 41-3409, Idaho Code (pursuant to a recommendation in the prior exam report) and were subsequently approved by the Department..

Minutes of Meetings

A review of the minutes of the meetings of the sole Member and of the Board of Directors for the period under examination indicated compliance with the Articles of Incorporation and Bylaws. These minutes also included approvals of the investment transactions.

FIDELITY BOND AND OTHER INSURANCE

Insurance coverages for the protection of the Corporation were maintained through the period under examination. The Corporation was a named insured on a Financial Institution Bond insuring VSP, which was provided by St. Paul Fire and Marine Insurance Company. The financial institution bond covered employee dishonesty, forgery or alteration, computer systems and trading loss claim up to $2,000,000 per loss and $4,000,000 in the aggregate. The deductible was $75,000 for each loss.

Other coverages insuring the Corporation included general liability, auto liability, professional liability (managed care errors and omissions), and directors and office liability.

The fidelity bond coverage met the suggested minimum limits recommended by the NAIC, and the insurers providing the various coverages were licensed or authorized in the State of Idaho.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

VSP, the Corporation's ultimate parent, maintained the following plans for its employees:

1. Defined Contribution Retirement Plan.
2. IRS Section 457 Deferred Compensation Plan.
3. Health Care Benefits for Retired Employees.

Expenses associated with these plans were charged to the Corporation by virtue of the Administration and Marketing Agreement between the Corporation and VSP. The Corporation has no employees.

TERRITORY AND PLAN OF OPERATION

The Corporation was licensed only in the State of Idaho as a professional service corporation pursuant to Chapter 34, Title 41, Idaho Code. Operations of the Corporation were conducted from its main administrative office located in Rancho Cordova, California. A statutory home office was also maintained and was located in Boise, Idaho.

Vision care benefits were provided to enrollees and their eligible dependents by participating optometrists and ophthalmologists within the Plan Area, which is the State of Idaho. Enrollees may also receive services from providers located outside the Plan Area, pursuant to reciprocal services procedures identified in the Administration and Marketing Agreement.

The Corporation provided administrative expertise for 14 administrative service plan participants. The 2006 Corporation's administrative fee income of $784,374 represented 10.11 percent of the overall cost and expense of the administrative service plans.

The Corporation marketed its vision plans through direct sales representatives and commissioned brokers. As of March 7, 2008, the Corporation had appointed one hundred and ten producers to solicit business on its behalf.

GROWTH OF THE CORPORATION

The Corporation's growth for the years indicated, as taken from its Annual Statements, is shown in the following schedule:

Year	Admitted Assets	Liabilities	Capital & Surplus	Net Income(Loss)
2001*	$2,441,671	$1,061,363	$1,380,308	$ (437,471)
2002	2,718,185	753,558	1,964,627	511,191
2003	3,126,050	635,191	2,490,859	523,777
2004	3,621,847	507,531	3,114,316	625,985
2005	4,455,357	445,881	4,009,476	811,611
2006*	$7,123,472	$ 755,426	$6,368,046	$2,364,451 **

* As determined by Examination

** Increases in admitted assets, liabilities, capital and surplus and net income were due primarily to the addition of one large employer group in 2006.

CLAIMS EXPERIENCE

The ratio of benefits and expenses to premium earned shown in the following schedule were derived from amounts reported in the Company's Annual statements:

Year	Premiums Earned	Benefits Incurred	Other Expenses Incurred	Ratio of Benefits and Expenses to Premiums Earned
2001*	$3,104,645	$3,145,868	$ 22,222	102.0%
2002	$3,612,746	$3,547,730	$ 49,259	81.7%
2003	$4,231,123	$3,575,715	$ 144,892	87.9%
2004	$4,117,452	$3,323,253	$ 153,807	84.4%
2005	$4,067,562	$3,461,108	$(69,143)	83.4%
2006*	$7,840,168	$5,050,155	$ 601,154	72.1%

* As determined by Examination

The addition of one large employer group in 2006 increased premium earned, benefits incurred and other expenses incurred.

INSURANCE PRODUCTS AND RELATED PRACTICES

A limited scope Market Conduct Examination was conducted in conjunction with the examination of the administrative affairs, books, records, and financial condition of the Corporation. Underlying data was also tested during the limited scope Market Conduct Examination.

Policy Forms and Underwriting Practices

The Corporation provided a single service benefit for vision care to those covered under its policy and addenda, which were approved for use by the Department of Insurance on February 11, 1994 (there were no changes to the policy submitted to DOI during the current examination period).

The policy and addenda were referred to as the Group Vision Care Plan, and were offered on either a risk or on a self-insured basis. Coverages under the Group Vision Care Plan were marketed as Plans A, Mod-A, B, and C. The primary differences between the plans were the intervals when services were available and the co-payment amounts.

The plan was offered to employer groups and health plans of 10 or more members, and was not marketed to individuals.

Treatment of Policyholders

Claims:

A sample of closed claims incurred during the examination period was reviewed. The review indicated that, in general, the claims were being settled in a timely manner and in accordance with policy terms.

Complaints:

The Corporation maintained a complaint register, which was reviewed during the examination. The complaint register contained complaints, which the Corporation received in 2002 through 2006. It was determined that the complaint register contained a complete record of all complaints which had been received by the Corporation since December 31, 2001, as required by Section 41-1330, Idaho Code.

The Corporation had established an anti-fraud and abuse policy and procedures which indicated compliance with Section 41-290, Idaho Code. The Corporation did not identify any fraudulent claims for the examination period of January 1, 2002 through December 31, 2006.

Advertising and Sales Materials

Advertising and sales materials provided for review indicated that VSP advertised in nationally circulated trade publications. All of the print advertisements reviewed were in the name of VSP and did not specifically identify the Corporation.

General information about VSP and access to marketing representatives can be obtained from VSP's web site on the Internet.

Under terms of the Administration and Marketing Agreement, the Corporation was licensed to use VSP's federally registered trademarks within the business activities of providing vision care through its panel of doctors.

ACCOUNTS AND RECORDS

General Accounting

The accounts and records of the Corporation were maintained by VSP under provisions of the Administration and Marketing Agreement.

VSP's information system utilized an IBM 9672-R56 mainframe computer to process information. The operating system utilized was OS/390.

Global Software, Inc. developed the general ledger software utilized by VSP. The software generated the financial statements, trial balances, and general ledger entries. The general ledger was maintained on a GAAP basis. However, the account balances were adjusted to statutory accounting through worksheet and adjusting journal entries for annual and quarterly statement reporting.

The Booke Annual Statement software was utilized to produce the Corporation's Annual Statements.

VSP's in-house developed software included the followed:

1. Policyholder benefits and claims software.
2. Software that processed plans and group information.

VSP had an agreement with IBM for continuity and recovery services; whereby, IBM, within a 24 hour time period, agreed to establish an offsite location to recover data and process daily transactions.

Independent Accountants

The Corporation's annual independent audit for the period under examination (2002-2006) was performed by:

PriceWaterhouseCoopers, L.L.P.
400 Capital Mall
Suite 600
Sacramento, California 95814

The 2002 through 2006 auditors' reports were reported in accordance with statutory accounting principles.

The December 31 audited balance sheets and financial statements for the aforementioned years were provided to the Idaho Department of Insurance in compliance with IDAPA 18.01.62.

The CPA's workpapers were relied upon in some instances and noted accordingly in the respective DOI workpapers.

Actuarial Opinion

The unpaid claims reserves and related actuarial items were calculated by the Corporation and reviewed by Frederick W. Kilbourne, FSA, MAAA, of the Kilbourne Company. The December 31, 2006 statement of opinion reported that the amounts carried in the balance sheet:

(a) are in accordance with accepted actuarial standards consistently applied and are fairly stated in accordance with sound actuarial principles,
(b) are based on actuarial assumptions relevant to contract provisions and appropriate to the purpose of the statement,
(c) make good and sufficient provision for all unpaid claims and other actuarial liabilities of the corporation under the terms of its contracts and agreements,
(d) are computed on the basis of assumptions consistent with those used in computing the corresponding items in the annual statement of the proceeding year-end,
(e) include provision for all actuarial items that ought to be established, and
(f) meet the insurance laws of the State of Idaho.

The identified actuarial items in the Annual Statement are as follows:

Claims unpaid	$389,603
Unpaid claims adjustment expenses	$ 4,530
Premiums received in advance	$ 6,216

FINANCIAL STATEMENTS

The financial section of this report contains the following statements:

Balance Sheet as of December 31, 2006

Statement of Revenue and Expenses for the Year Ending December 31, 2006

Capital and Surplus Account for the Year Ending December 31, 2006

Reconciliation of Capital and Surplus, December 31, 2001 through December 31, 2006

BALANCE SHEET
As of December 31, 2006

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$ 999,749	$ 0	$ 999,749
Common stocks (Note 1)	522,476	0	522,476
Cash, cash equivalents and short-term investments	4,243,699	0	4,243,699
Uncollected premiums	698,232	3,804	694,428
Investment income due and accrued	41,554	0	41,554
Amounts receivable relating to uninsured accident and health plans	621,566	0	621,566
Totals	$7,127,276	$ 3,804	$7,123,472

LIABILITIES, CAPITAL AND SURPLUS

	Covered	Uncovered	Total
Claims unpaid	$ 389,603	$	$ 389,603
Unpaid claims adjustment expenses	4,530		4,530
Premiums received in advance	6,216		6,216
General expenses due or accrued	61,066		61,066
Amounts due to parent, subsidiaries and affiliates	129,918		129,918
Liability for amounts held under uninsured plans	87,398		87,398
Premium taxes, license and miscellaneous fees	76,695	$ 0	76,695
Total liabilities	$ 755,426	$ 0	$ 755,426
Statutory reserve	$ 100,000		$ 100,000
Unassigned funds (surplus)	6,268,046		6,268,046
Total capital and surplus	$6,368,046		$6,368,046
Totals	$7,123,472	$ 0	$7,123,472

STATEMENT OF REVENUES AND EXPENSES

For the Year Ending December 31, 2006

	Uncovered	Total
Net premium income		$7,714,182
Fee-for-service		125,988
Total revenues		$7,840,170
Medical and Hospital:		
Other professional services		$5,050,155
Total Medical and Hospital		$5,050,155
Claims adjustment expense		46,587
General administrative expense		554,567
Decrease in reserves for accident and health contracts		(58,729)
Total underwriting deductions	$ 0	$5,592,580
Net underwriting gain		$2,247,590
Net investment income earned		$ 150,185
Net realized capital losses		(32,126)
Net investment gains or (losses)	$ 0	$ 118,059
Net gain or (loss) from agents' or premium balances charged off	0	(1,198)
Net income	$ 0	$2,364,451

CAPITAL AND SURPLUS ACCOUNT

For the Year Ending December 31, 2006

	Per Corporation	Examination Changes	Per Examination
Capital and surplus prior reporting year	$4,009,476	$ 0	$4,009,476
GAINS AND LOSSES TO CAPITAL AND SURPLUS			
Net income or (loss)	$2,364,451	$ 0	$2,364,451
Change in net unrealized capital losses	(3,075)		(3,075)
Change in nonadmitted assets	(2,806)		(2,806)
Capital and surplus end of reporting year	$6,368,046	$ 0	$6,368,046

RECONCILIATION OF CAPITAL AND SURPLUS

December 31, 2001 Through December 31, 2006

	2002	2003	2004	2005	2006
Capital and surplus prior reporting year	$1,380,308*	$1,964,267	$2,490,859	$3,114,316	$4,009,476
Net income	$ 511,191	$ 523,777	$ 625,985	$ 811,611	$2,364,451
Change in net unrealized gains or losses	0	0	0	(38,696)	(3,075)
Change in nonadmitted assets	73,128	(2,025)	(2,528)	3,555	(2,806)
Aggregate write-ins for gains or losses in surplus	0	4,480	0	118,690	0
Change in capital and surplus	$ 584,319	$ 526,232	$ 623,457	$ 895,160	$2,358,570
Capital and surplus end of reporting year	$1,964,627	$2,490,859	$3,114,316	$4,009,476	$6,368,046*

* Per examination

NOTES TO THE FINANCIAL STATEMENTS

Note (1) – Common Stocks $522,476

All of the Corporation's common stocks were held by Smith Barney (custodian and investment firm) under a client agreement. It was noted that this agreement did not contain the following custodial agreement guidelines mentioned in the NAIC *Financial Condition Examiners Handbook:*

1. Registered custodial securities shall be registered in the name of the Corporation, in the name of a nominee of the Corporation, in the name of the custodian or its nominee, or clearing corporation or its nominee. The securities shall be held subject to the instructions of the Corporation, and shall be withdrawal upon the demand of the Corporation. Confirmation of all transfers shall be provided to the Corporation in hard-copy or in electronic format.
2. Custodian shall be liable to the Corporation for loss of securities in the custodial account which result from the negligence or willful misconduct of the custodian, the sub-custodian, depository or any of their respective officers, employees, agents or nominees.
3. In the event of a loss of the securities for which the custodian is obligated to indemnify the Corporation, the securities shall be promptly replaced or the value of the securities and the value of any loss of rights or privileges resulting from said loss of securities shall be promptly replaced.
4. If the agreement has been terminated or if 100% percent of the account assets have been withdrawn, the custodian shall provide written notification, within three business days of termination or withdrawal, to the Director of the Idaho Department of Insurance.
5. During regular business hours, and upon reasonable notice, an officer or employee of the Corporation, an independent accountant selected by the Corporation and a representative of an appropriate regulatory body shall be entitled to examine, on the promises of the custodian, its records relating to securities, if the custodian is given written instructions to that effect from an authorized officer of the Corporation.
6. The custodian shall provide, upon written request from the Idaho Department of Insurance or authorized officer of the Corporation, the appropriate affidavits, with respect to the Corporation's securities held by the custodian.

It is recommended that the Corporation revise or amend the existing custodial agreement by adding the above mentioned NAIC provisions.

SUMMARY, COMMENTS AND RECOMMENDATIONS

Summary

The results of this examination disclosed that as of December 31, 2006, the Corporation had admitted assets of $7,123,472, liabilities of $755,426, a statutory reserve of $100,000, and unassigned funds of $6,268,046.

The unassigned funds amount met the minimum requirements per Section 41-3422, Idaho Code.

Comments and Recommendations

Page

3 The Corporation expects the IRS to revoke its tax-exempt status. Had the Corporation been taxable beginning on January 1, 2003, taxes of approximately $1,514,000 would have been incurred through December 31, 2006 ($2,638,000 through December 31, 2007). However, the Corporation believes, based upon advice from tax counsel, that a revocation of the tax-exempt status would likely be on a prospective basis. Therefore, no provision for taxes has been made.

7 The Corporation did not submit the revised administration and marketing agreement with its parent to the Idaho Department of Insurance for approval 30 days prior to the effective date (December 31, 2007); this was in violation of Idaho Code Section 3807(2)(d). The above agreement was later submitted to the Idaho Department of Insurance on March 13, 2008. An approval letter was received from the Idaho Department of Insurance on March 24, 2008.

It is recommended that in the future the Corporation submit such agreements to the Department in a timely manner pursuant to Idaho Code Section 41-3807(2)(d).

17 The client agreement between the Corporation and Smith Barney did not contain provisions mentioned in the NAIC guidelines for custodial or safekeeping agreements. It is recommended that the Corporation revise or amend the agreement by adding the provisions mentioned in the NAIC guidelines.

CONCLUSION

The undersigned acknowledges the assistance and cooperation of the Corporation's officers and employees in conducting the examination.

Respectfully submitted,

Kelvin Ko

Kelvin Ko, CFE
Senior Insurance Examiner
Department of Insurance
State of Idaho

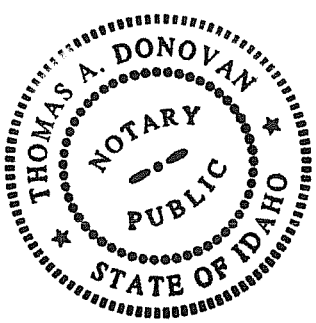
AFFIDAVIT OF EXAMINER

State of Idaho
County of Ada

Kelvin Ko being duly sworn, deposes and says that he is a duly appointed Examiner for the Department of Insurance of the State of Idaho, that he has made an examination of the affairs and financial condition of *Vision Service Plan of Idaho, Inc.* for the period from January 1, 2002 through December 31, 2006, that the information contained in the report consisting of the foregoing pages is true and correct to the best of his knowledge and belief; and that any conclusions and recommendations contained in this report are based on the facts disclosed in the information.

Kelvin Ko
Senior Insurance Examiner
Department of Insurance
State of Idaho

Subscribed and sworn to before me the 23 day of May, 2008, at Boise, Idaho.



Notary Public

My Commission Expires: 2/17/2013

State of Idaho
DEPARTMENT OF INSURANCE

C.L. "BUTCH" OTTER
Governor

700 West State Street, 3rd Floor
P.O. Box 83720
Boise, Idaho 83720-0043
Phone (208)334-4250
FAX # (208)334-4398

WILLIAM W. DEAL
Director

WAIVER

In the matter of the Report of Examination as of December 31, 2006, of:

Vision Service Plan of Idaho, Inc.
3333 Quality Drive
Rancho Cordova, CA 95670

By executing this Waiver, the Company hereby acknowledges receipt of the above-described examination report, verified as of the 23rd day of May 2008, and by this Waiver hereby consents to the immediate entry of a final order by the Director of the Department of Insurance adopting said report without any modifications.

By executing this Waiver, the Exchange also hereby waives:

1. its right to examine the report for up to thirty (30) days as provided in Idaho Code section 41-227(4),
2. its right to make a written submission or rebuttal to the report prior to entry of a final order as provided in Idaho Code section 41-227(4) and (5),
3. any right to request a hearing under Idaho Code sections 41-227(5) and (6), 41-232(2)(b), or elsewhere in the Idaho Code, and
4. any right to seek reconsideration and appeal from the Director's order adopting the report as provided by section 41-227(6), Idaho Code, or elsewhere in the Idaho Code.

Dated this 4 day of June, 2008

RECEIVED
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STATE OF IDAHO
DEPT OF INSURANCE

Patricia Cochran
Name (print)

Patricia Cochran
Name (signature)

CFO & Treasurer
Title

Equal Opportunity Employer

EXHIBIT
tabbies
B