

REPORT OF
FINANCIAL EXAMINATION
WINHEALTH PARTNERS

AS OF
DECEMBER 31, 2013



STATE OF WYOMING
DEPARTMENT OF INSURANCE
CHEYENNE, WYOMING

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SALUTATION
Cheyenne, Wyoming
February 12, 2015

Honorable Tom Glause
Insurance Commissioner
State of Wyoming
106 East 6th Avenue
Cheyenne, WY 82002-0440

Commissioner:

Pursuant to your instructions and in compliance with the provisions of the Wyoming Insurance Code and the rules and regulations promulgated by the National Association of Insurance Commissioners, hereinafter called "NAIC," an examination was made as of December 31, 2013, of the financial condition, management, and affairs of

WINHEALTH PARTNERS

hereinafter referred to as the "Company," at its home office located at 1200 East 20th Street, Suite A, Cheyenne, Wyoming. The following report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

The examination reported upon herein was undertaken as a routine examination as called for by Wyoming Statute § 26-34-120(a). The Company was last examined as of December 31, 2009. The current examination covers the period from January 1, 2010, through December 31, 2013.

We conducted our single-state examination in accordance with the *NAIC Financial Condition Examiners Handbook*. The Handbook requires that we plan and perform 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, management's compliance with Statutory Accounting Principles and annual statement instructions, when applicable to domestic state laws and regulations. All accounts and activities of the Company were considered in accordance with the risk-focused examination process. Quality assurance procedures were performed by the Wyoming Department of Health as required by Wyoming Statute § 26-34-120(b).

DESCRIPTION OF THE COMPANY

History of the Company:

The Company has been located in Cheyenne, Wyoming for its entire existence. The Company was organized in August 1994 as Southeast Wyoming Community Health Company. On August 14, 1996, the Board of Directors amended the Company's articles of incorporation to change the Company's name to WINhealth Partners.

The Company was issued its certificate of authority on May 13, 1996, to operate in Laramie County, Wyoming. The Company obtained permission in June 1998 to expand into Albany, Carbon, and Sweetwater Counties in Wyoming. On May 3, 1999, the Wyoming Department of Insurance approved the Company's request for authority to operate statewide.

The Company's articles of incorporation state that the corporation was "organized and shall be operated as a nonprofit corporation for medical, civic, charitable, scientific or educational purposes, and in connection therewith, to engage in: (1) the potential development of a contractual relationship for the provision of health care services between Southeast Wyoming Preferred Physicians and Memorial Hospital of Laramie County, d/b/a United Medical Center [currently known as Cheyenne Regional Medical Center], a Body Corporate - as health care services providers, and Key Corporation, as the purchaser of health care services; (2) the establishment of a physician/hospital/community organization in order to develop a managed care product including possible licensing as a health maintenance organization; and (3) to engage in any other lawful activity which may be undertaken by nonprofit corporations under Wyoming law."

The articles further state that if the corporation shall be dissolved "any surplus property remaining after the payment of its debts shall be disposed of by transfer to one or more

corporations, associations, institutions, trusts, community chests or foundations, in such proportions and in such manner as the Board of Directors of this corporation shall determine.”

Prior Examination Findings:

During the last examination there were seven recommendations. The recommendations relating to the board meetings, CPA indemnification clauses, reinsurance intermediaries, related parties and quality assurance program activities were resolved.

The issue regarding annually obtaining conflict of interest statements from the board and key personnel was improved but not entirely resolved. See the Management and Control section of this report.

The recommendation involving the Company’s fidelity bond was partially resolved during the current exam period. The recommendation that the Company annually review its fidelity bond coverage and make required adjustments to coverage limits has been resolved. The recommendation that the Company have the present policy amended to include the required discovery and related expiration language added in order to comply with W.S. § 26-34-107(b) has not been resolved. See the Fidelity Bonds and Other Insurance section of this report.

Corporate Records:

The Company originally adopted its articles of incorporation and by-laws on August 24, 1994. The articles of incorporation were last amended on August 14, 1996. During the exam period, the by-laws were amended in June 2013. Subsequent to the exam period, the by-laws were amended in May 2014.

The Company originally adopted a plan for insolvency on May 7, 1996. The new Protection Against Insolvency Plan was adopted subsequent to the exam period in January 2015 and is in compliance with the requirements of W.S. § 26-34-114(r).

The minutes of the meetings of the Board of Directors were reviewed in detail. It was determined that the Company documents the actions that are taken at its board meetings.

Management and Control:

The control and direction of the Company rests with its Board of Directors. The Company’s by-laws that were adopted on June 5, 2013, require six board members. Two members of the board are elected by Cheyenne Regional Medical Center (CRMC); two are elected by Southeast Wyoming Preferred Physicians (SWPP), a Wyoming nonprofit corporation; and two represent the Cheyenne community and are elected by the directors selected by CRMC and SWPP. As of December 31, 2013, there were five board members. The Company is not in compliance with its by-laws.

Recommendation 1: It is recommended that the Company fill all vacant Board of Director positions as they become open so the Company can operate with a full board as stipulated in the by-laws.

Directors serve three-year terms. Any vacancy in the membership of the board shall be filled for the unexpired term by the membership class entitled to elect such director. The Board of Directors is in compliance with W.S. § 26-34-106(a).

As of December 31, 2013, the following directors were holding office:

<u>Director Name</u>	<u>Principal Occupation & Location</u>
Paul S. Howard	Vice President – Branch Director, RBC Wealth Management, Cheyenne, Wyoming
Margo A. Karsten	Chief Executive Officer, Cheyenne Regional Medical Center Cheyenne, Wyoming
John Babson, M.D.	Physician, Cheyenne, Wyoming
Carol Anne Fischer, M.D.	Physician, Cheyenne, Wyoming
Kevin R. Mallory	President, Gator Industries, Cheyenne, Wyoming

The officers of the Company are elected by the members of the Board of Directors. As of December 31, 2013, the officers were as follows:

President/Chief Executive Officer	Stephen King Goldstone
Secretary	Kevin Roy Mallory
Treasurer	John Babson, MD
Medical Director	Kirk Thomas Shamley, M.D.

The Company has filed biographical affidavits for all directors, officers, and key personnel hired during the examination period with the Department.

During the examination period, a majority of the Finance and Audit Committee members were not independent.

Wyoming Statute § 26-3-315(h) states, “The proportion of independent audit committee members shall meet or exceed the following criteria, ... (i) For insurers with prior calendar year direct written and assumed premiums of five hundred million dollars (\$500,000,000.00) or less the audit committee shall have a majority of members that are independent and the insurers are encouraged to structure their audit committees with at least seventy-five percent (75%) of the audit committee members being independent;”

Recommendation 2: It is recommended that the Company comply with W.S. § 26-3-315(h)(i) by appointing a majority of independent board members to the Finance and Audit Committee.

It is noted that the Company came into compliance with this statute subsequent to the exam period in August of 2014.

The Company adopted a conflict of interest policy on July 1, 1996. The policy calls for annual conflict of interest statements from each of the directors. As of the previous exam, the Company was also collecting conflict of interest statements from officers and key personnel. As of the date of this exam, the Company was missing several conflict of interest statements. A conflict of interest statement was missing for one board member who also served on the Finance and Audit Committee for 2012, and 2013. In addition, statements were not obtained from several key employees during the exam period.

Conflict of interest issues are discussed in W.S. § 17-16-830(c). It is a good business practice for the Board of Directors to be aware of any conflict of interest pertaining to any of its members, officers or key personnel.

Wyoming Statute § 26-34-110(d) states, “The commissioner may require any additional reports as are deemed reasonably necessary and appropriate to enable him to carry out his duties under this chapter.” The commissioner has requested that all domestic insurance companies obtain conflict of interest statements and make them available for review during an examination.

Recommendation 3: It is recommended that the Company obtain conflict of interest statements from its board, officers, and key personnel on an annual basis. The Company should also obtain conflict of interest statements from each new director as elected and each new officer and key employee as hired.

Capitalization Structure:

The Company has received half of its contributed capital from Cheyenne Regional Medical Center and half from the Southeast Wyoming Preferred Providers. The Company, as a health maintenance organization, is not subject to Wyoming’s Insurance Holding Company System Regulatory Act (Title 26, Chapter 44 of the Wyoming Insurance Code) except as set forth in W.S. § 26-34-132 relating to acquisition of control of or merger of a health maintenance organization.

Fidelity Bonds and Other Insurance:

The Company maintains fidelity bond coverage with St. Paul Fire & Marine Insurance Company.

The current policy is missing language required by W.S. § 26-34-107(b) that should allow at least a one year discovery period and if that discovery period is less than three years, the expiration may not be less than 90 days after written notice to the Commissioner.

The Company did not have the policy amended to include the required language for discovery and expiration. This issue was also noted in the previous exam.

Wyoming Statute § 26-34-107(b) states, “A health maintenance organization shall maintain in force a fidelity bond on employees and officers in an amount not less than the greater of two hundred fifty thousand dollars (\$250,000.00), ten percent (10%) of the organization's previous year's gross premiums or other amount the commissioner prescribes. All such bonds shall be written with at least a one (1) year discovery period and if written with less than a three (3) year discovery period shall contain a provision that no cancellation or termination of the bond, whether by or at the request of the insured or by the underwriter is effective prior to the expiration of ninety (90) days after written notice of the cancellation or termination has been filed with the commissioner unless the commissioner approves an earlier date of cancellation or termination.”

Recommendation 4: It is recommended that the Company have the present fidelity bond policy amended to include the required discovery and related expiration language in order to comply with W.S. § 26-34-107(b).

The Company also has \$2,000,000 in cyber liability coverage through OneBeacon Insurance Company and \$3,000,000 in professional liability insurance with Travelers Casualty and Surety Company of America. In addition, the Company has building and business personal property insurance with Hartford Fire Insurance Company.

Officers', Employees', and Agents' Welfare and Pension Plans:

In January 1998, the Company established a 401k plan. The 401k plan provides for a mandatory safe harbor match of three percent of each eligible employee's annual compensation and discretionary matching employer contributions up to a maximum of five percent, including the safe harbor match.

The Company also offers long-term disability, life, health and dental insurance to its full-time employees.

Territory and Plan of Operation:

The Company is a non-profit health maintenance organization (HMO) operating only in Wyoming. The Company's home office is located in Cheyenne, Wyoming.

Independent brokers are used to market the Company's health plans to small employers, while in-house staff is used to obtain large group accounts. The Company had appointments with 14 firms and 39 individuals as of December 31, 2013.

The Company provides several HMO health plans on a non-capitated, fee-for-service basis. The Company also started marketing individual health plans in 2009.

Growth of the Company:

The growth of the Company during the examination period is summarized as follows:

Category	2010	Per Examination 2013	Increase (Decrease)
Premiums Earned	\$44,834,316	\$29,464,176	(\$15,370,140)
Net Admitted Assets	\$13,898,109	\$12,282,080	(\$1,616,029)
Net Worth	\$8,420,214	\$8,664,143	\$243,929
Members	9,337	5,633	(3,704)

Business In Force by State:

The Company operates only in the State of Wyoming and is authorized to conduct disability (health) insurance business. The Company had gross written premiums of \$31,071,764 for 2013, \$34,260,946 for 2012, \$35,473,378 for 2011, and \$46,371,061 for 2010.

Loss Experience:

Taylor-Walker & Associates, actuarial consultants, were retained to review the Company's loss experience and reserving methods. The consulting actuary found that the Company generally followed accurate and appropriate procedures in establishing its actuarial reserves and liabilities given the information available at December 31, 2013. The consulting actuary did not recommend any adjustments to the Company's reported reserves.

A copy of the consulting actuary's report has been given to the Company.

Reinsurance:

During the examination period, the Company ceded business to Reliastar Life Insurance Company until November 1, 2010. Reliastar is a licensed insurer in the State of Wyoming. Under this agreement, the Company retained \$200,000 for each member for the agreement year.

Effective November 1, 2010, the Company placed its coverage with RGA Reinsurance Company under an excess of loss reinsurance agreement. RGA Reinsurance Company is a licensed insurer in the State of Wyoming. The Company retained \$200,000 for each member for the agreement year. This policy renewed annually and remained in effect through October 31, 2013.

Effective November 1, 2013, the Company placed its coverage with PartnerRe America Insurance Company. PartnerRe America Insurance Company is a licensed insurer in the State of

Wyoming. Under this agreement, the Company retained \$250,000 for each member during the agreement year.

The reinsurance agreements were filed with and approved by the Department in accordance with W.S. § 26-34-103(f).

The Company is using Axiom Re, LP, dba Evergreen Re as its reinsurance intermediary broker. The Company failed to review the financial condition of the reinsurance intermediary broker on an annual basis.

Pursuant to W.S. § 26-47-106(c), “The insurer shall annually obtain a copy of statements of the financial condition of each reinsurance intermediary broker with which it transacts business.”

Recommendation 5: It is recommended that the Company obtain and review the reinsurance broker’s financial statements on an annual basis in order to comply with W.S. § 26-47-106(c).

The Company also cedes business to the Wyoming Small Employer Health Reinsurance Program.

Accounts and Records:

The Company’s administrative, accounting, underwriting, policy administration, investment, and claims handling functions are performed at its home office in Cheyenne, Wyoming.

The Company’s accounts and records were reviewed in accordance with the *NAIC Financial Condition Examiners Handbook* and the Wyoming Insurance Code. The following items were noted.

The provider agreements have changed materially since they were last filed with the Department. Material modifications to provider contracts require notification to the Department prior to implementation of the modification.

Wyoming Statute § 26-34-103(d) states, “Any applicant or health maintenance organization holding a certificate of authority granted under this chapter, unless otherwise provided for in this chapter, shall file a notice describing any material modification of the operation set out in the information required by subsection (c) of this section. The notice shall be filed with the commissioner prior to the modification. If the commissioner does not disapprove within forty-five (45) days of filing, the modification is deemed approved.”

Wyoming Statute § 26-34-103(c)(iv) requires the following to be filed, “A copy of any contract made or to be made between any providers . . . and the health maintenance organization.”

Recommendation 6: It is recommended that the Company comply with W.S. § 26-34-103(d) and file the current version of the provider contracts with the Department. The Company shall also file the contracts with the Department whenever there is a material modification.

It is noted that the Company recently filed the current provider contracts with the Department.

The Company has contracted with marketing vendors to assist with its business operations. Contracts with marketing vendors are required to be filed with the Department 45 days prior to the effective date of the contract.

Wyoming Statute § 26-34-105(a) states in part, “The powers of a health maintenance organization include but are not limited to the: ... (iv) Contracting with any person for the performance on its behalf of certain functions such as marketing, enrollment and administration;”

Wyoming Statute § 26-34-105(b) states, “A health maintenance organization shall file notice, with adequate supporting information, with the commissioner prior to the exercise of any power granted in paragraph (a)(i), (ii) or (iv) of this section. The commissioner shall disapprove any exercise of power only if in his opinion it would substantially and adversely affect the financial soundness of the health maintenance organization and endanger its ability to meet its obligations. If the commissioner does not disapprove within forty-five (45) days from the date of the filing, it is deemed approved.”

Recommendation 7: It is recommended that the Company comply with W.S. § 26-34-105(a) and W.S. § 26-34-105(b) and file any and all contracts for marketing services with the Department 45 days prior to the effective date of the contract.

The Company had two mutual funds on Schedule DA – Part 1 that exceed the 5 percent of admitted asset limitation. The two mutual funds made up 58 percent of admitted assets as of December 31, 2013.

Wyoming Statute § 26-7-106(a)(i) states, “No insurer shall have at any time any combination of investments in or loans upon the security of the obligations, property or securities of any one (1) person, institution, corporation or municipal corporation aggregating an amount exceeding five percent (5%) of the insurer's assets, except this does not apply to general obligations of the United States of America or of any state or include policy loans made under W.S. 26-7-108;”

Recommendation 8: It is recommended that the Company adjust its investment portfolio to bring it into compliance with W.S. § 26-7-106(a)(i).

The Company maintains its home office in Cheyenne, Wyoming. As of December 31, 2013, the building occupied by the Company was valued at \$2,127,444, which was 17.3 percent of total admitted assets.

Wyoming Statute § 26-7-107(a) (xiii)(A) states, “The land and the buildings thereon occupied by it as its principal office and any other real property necessary in the transaction of its business, provided the amount so invested and apportioned as to space actually so occupied shall not aggregate more than fifteen percent (15%) of the insurer's assets;”

Recommendation 9: It is recommended that the Company monitor its investment portfolio to ensure compliance with W.S. § 26-7-107(a) (xiii)(A).

Subsequent to the exam period, as of September 30, 2014, the admitted assets of the Company increased to \$18,575,466. The value of the real estate is now below 15 percent of admitted assets and is in compliance with W.S. § 26-7-107(a) (xiii)(A).

Statutory Deposit:

The Company has a US Treasury Note with a fair value of \$319,699 on deposit in favor of the State of Wyoming for the protection of the Company's enrollees as of December 31, 2013.

Quality Assurance:

The Wyoming Department of Health's review of the Company's quality assurance program indicated that the Company is operating in compliance with Wyoming Statutes § 26-34-108(f), § 26-34-112 and § 26-34-134.

Subsequent Events:

Subsequent to the exam period, the Company changed its by-laws increasing the number of members on the Board of Directors to a minimum of eight (8). As of the latest quarterly filing dated September 30, 2014, the Company reported six board members, so it continues to be out of compliance with its by-laws.

The Company began selling individual policies on Wyoming's federal marketplace exchange in 2014. The federal exchange was implemented pursuant to the Patient Protection and Affordable Care Act (PPACA). Due to its participation in the federal exchange, the Company's membership increased significantly from 5,633 members as of December 31, 2013, to 14,279 members as of the most recently filed quarterly statement dated September 30, 2014.

WINHEALTH PARTNERS
STATEMENT OF ASSETS AND LIABILITIES
as of December 31, 2013

ASSETS	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	\$320,366		\$320,366
Real Estate	2,127,444		2,127,444
Cash, Cash Equivalents and Short-term Investments	8,381,859		8,381,859
Subtotals, Cash and Invested Assets	10,829,669		10,829,669
Investment Income Due and Accrued	474		474
Uncollected Premiums	56,188		56,188
Amounts Recoverable from Reinsurers	443,786		443,786
Current Federal and Foreign Income Tax Recoverable	740,900		740,900
Net Deferred Tax Asset	138,161		138,161
Electronic Data Processing Equipment and Software	294,232	233,455	60,777
Furniture and Equipment	75,666	75,666	0
Health Care and Other Amounts Receivable	59,275	59,275	0
Aggregate Write-Ins for Other Than Invested Assets	65,422	53,297	12,125
Total Assets	\$12,703,773	\$421,693	\$12,282,080
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LIABILITIES, CAPITAL AND SURPLUS	Covered	Uncovered	Total
Claims Unpaid	\$1,822,100	\$306,286	\$2,128,386
Unpaid Claims Adjustment Expenses	63,852		63,852
Aggregate Health Policy Reserves	323,068		323,068
Premiums Received in Advance	311,165		311,165
General Expenses Due or Accrued	725,128		725,128
Amounts Due to Parent, Subsidiaries and Affiliates	17,411		17,411
Aggregate Write-Ins for Other Liabilities	48,927		48,927
Total Liabilities	\$3,311,651	\$306,286	3,617,937
Gross Paid In and Contributed Surplus			4,785,038
Unassigned Funds			3,879,105
Total Capital and Surplus			8,664,143
Total Liabilities, Capital and Surplus			\$12,282,080

WINHEALTH PARTNERS
STATEMENT OF OPERATIONS
for the Year Ending December 31, 2013

	Uncovered	Total
Net Premium Income		\$29,464,176
Change in Unearned Premium Reserves and Reserve for Rate Credits		(149,423)
Aggregate Write-Ins for Other Health Care Related Revenues		265,300
Aggregate Write-Ins for Other Non-Health Revenues		178
Total Revenues		29,580,231
Hospital/Medical Benefits		16,542,362
Other Professional Services		809,774
Outside Referrals	\$1,735,128	1,735,128
Emergency Room and Out-of-Area	618,488	4,492,721
Prescription Drugs		3,263,782
Subtotal	2,353,616	26,843,767
Less: Net Reinsurance Recoveries		2,692,306
Total Hospital and Medical	2,353,616	24,151,461
Claims Adjustment Expenses		2,563,826
General Administrative Expenses		4,069,613
Total Underwriting Deductions	\$2,353,616	30,784,900
Net Underwriting Gain or (Loss)		(1,204,669)
Net Investment Income Earned		159,392
Net Realized Capital Gains (Losses)		(3,750)
Net Investment Gain		155,642
Net Gain or (Loss) from Agents' or Premium Balances Charged Off		926
Net Income or (Loss) Before Federal Income Taxes		(1,048,101)
Federal Income Taxes Incurred		(341,030)
Net Income (Loss)		(\$707,071)

WINHEALTH PARTNERS
RECONCILIATION OF CAPITAL AND SURPLUS
January 1, 2010 Through December 31, 2013

	Per Annual Statement	Per Annual Statement	Per Annual Statement	Per Examination
	2010	2011	2012	2013
Capital and Surplus Prior Reporting Year	\$10,903,703	\$8,420,214	\$8,582,658	\$9,469,420
Net Income or (Loss)	(2,895,513)	8,677	1,012,058	(707,071)
Change in Net Deferred Income Tax	106,257	(64,514)	41,088	32,895
Change in Non-admitted Assets	113,135	43,281	(166,384)	(131,102)
Paid in Surplus	40,000	175,000	0	0
Aggregate Write-ins for Gains in Surplus	152,632	0	0	0
Net Change in Capital and Surplus	(2,483,489)	162,444	886,762	(805,278)
Capital and Surplus End of Reporting Year	\$8,420,214	\$8,582,658	\$9,469,420	\$8,664,142

SUMMARY OF RECOMMENDATIONS

Recommendation 1: It is recommended that the Company fill all vacant Board of Director positions as they become open so the Company can operate with a full board as stipulated in the by-laws.

Recommendation 2: It is recommended that the Company comply with W.S. § 26-3-315(h)(i) by appointing a majority of independent board members to the Finance and Audit Committee.

Recommendation 3: It is recommended that the Company obtain conflict of interest statements from its board, officers, and key personnel on an annual basis. The Company should also obtain conflict of interest statements from each new director as elected and each new officer and key employee as hired.

Recommendation 4: It is recommended that the Company have the present fidelity bond policy amended to include the required discovery and related expiration language in order to comply with W.S. § 26-34-107(b).

Recommendation 5: It is recommended that the Company obtain and review the reinsurance broker's financial statements on an annual basis in order to comply with W.S. § 26-47-106(c).

Recommendation 6: It is recommended that the Company comply with W.S. § 26-34-103(d) and file the current version of the provider contracts with the Department. The Company shall also file the contracts with the Department whenever there is a material modification.

Recommendation 7: It is recommended that the Company comply with W.S. § 26-34-105(a) and W.S. § 26-34-105(b) and file any and all contracts for marketing services with the Department 45 days prior to the effective date of the contract.

Recommendation 8: It is recommended that the Company adjust its investment portfolio to bring it into compliance with W.S. § 26-7-106(a)(i).

Recommendation 9: It is recommended that the Company monitor its investment portfolio to ensure compliance with W.S. § 26-7-107(a) (xiii)(A).

CONCLUSION

Jeff Braunschweig, Kathryn Cotton, and G. Douglas Melvin, examiners for the Wyoming Department of Insurance participated in the examination. Review of the Company's reserves was conducted by Scott S. Garduno FSA, MAAA, of the firm Taylor-Walker & Associates, Inc. The review of the quality assurance program was conducted by Jill Reinking of the Wyoming Department of Health.

Appreciation is expressed for the cooperation and assistance extended by the officers and employees of the Company during the course of the examination.

I, the undersigned, hereby certify that an examination has been made of **WINHEALTH PARTNERS**, and the preceding report is true and correct to the best of my knowledge and information.

Respectfully submitted,

Kathryn E. Cotton, CPA, CFE
Examiner-In-Charge
Senior Examiner
Department of Insurance
State of Wyoming

This report has been reviewed and is true and correct to the best of my knowledge and information.

Linda Johnson, CPA, CFE
Chief Financial Examiner
Department of Insurance
State of Wyoming

The foregoing instrument was acknowledged under oath before me this _____ day of March 2015.

Witness my hand and official seal.

Notary Public

My Commission Expires: _____