

REPORT OF
FINANCIAL EXAMINATION
WINHEALTH PARTNERS

AS OF
DECEMBER 31, 2003



STATE OF WYOMING
DEPARTMENT OF INSURANCE
CHEYENNE, WYOMING

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SALUTATION

Cheyenne, Wyoming
October 15, 2004

Honorable Kevin McCarty
Chairman, NAIC Financial Condition
(E) Committee
Office of Insurance Regulation
The Larson Building, Room 101A
200 East Gaines Street
Tallahassee, FL 32399-0305

Honorable Kenneth G. Vines
Insurance Commissioner
State of Wyoming
122 West 25th Street
Cheyenne, WY 82002-0440

Honorable John Morrison
Western Zone Secretary
State Auditor's Office
840 Helena Avenue
Helena, MT 59601

Chairman, Secretary, and 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, 2003, 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, 2000. The current examination covers the period from January 1, 2001, through December 31, 2003.

The examination included a review and analysis of operations and a determination of the financial condition of the Company as of the date of examination. Valuation and verification of assets, determination of liabilities and reserves, and testing and analysis of such accounts and records deemed necessary to the examination were performed. The examination utilized, where appropriate, work performed by the Company's independent Certified Public Accountants. Quality assurance testing and limited market conduct procedures were also performed during the examination. In addition, the exam included a limited review of material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

The examination was conducted in accordance with procedures suggested by the Financial Condition (E) Committee of the NAIC and other generally accepted insurance standards. Quality assurance procedures were performed by the Wyoming Department of Health as required by Wyoming Statute § 26-34-120(b).

During the examination, there were some immaterial items noted that are not included in this report. These issues are discussed in a management letter that was given to the Company and its Board of Directors under a separate cover.

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, 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.”

Management and Control:

The entire control and direction of the Company rests with its Board of Directors. The number of directors is fixed at 12 by the Corporation’s Bylaws. Six members of the Board are elected by Memorial Hospital of Laramie County, d/b/a United Medical Center (UMC), and the other six are elected by Southeast Wyoming Preferred Physicians (SWPP), a Wyoming nonprofit corporation.

Directors serve three-year terms with the terms of four directors expiring each year. 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).

During 2003, the Company only had eleven members on its Board of Directors, and therefore, the Board of Directors did not have equal representation from UMC and SWPP.

Article IV, Section 1 of the Company’s Bylaws states that the corporation’s Class A member shall elect six (6) members of the Board of Directors and the corporation’s Class B member shall elect six (6) members of the Board of Directors.

Recommendation 1: It is recommended that the Company comply with its Bylaws regarding the number of directors it has on its Board.

The annual meeting date of the corporation is specified by the Board of Directors and special meetings may be held at the request of the President, in absence of the President by the Vice President, or upon request of any three or more directors, upon proper notice being given. The Board may act without a meeting, if consent in writing is signed by all of the directors.

As of December 31, 2003, the following directors were holding office:

Name	Principal Occupation & Address	Date of First Term
Bruce R. Anderson	Vice President, Fiscal Services United Medical Center Cheyenne, Wyoming	8/94
William D. Bagley	Attorney Cheyenne, Wyoming	4/02

Name	Principal Occupation & Address	Date of First Term
Carol A. Fischer	Physician Cheyenne, Wyoming	8/97
John E. Glode	Physician Cheyenne, Wyoming	8/02
Jon M. Gates	Chief Executive Officer United Medical Center Cheyenne, Wyoming	8/94
William J. Horam	Physician Cheyenne, Wyoming	3/99
H. James Mueller	Self-employed Accountant Pine Bluffs, Wyoming	12/02
Peter G. Perakos	Physician Cheyenne, Wyoming	8/94
James V. Redler	Retired Cheyenne, Wyoming	1/99
Philip J. Schiel	Physician Cheyenne, Wyoming	8/95
Richard E. Torkelson	Orthopaedic Surgeon Cheyenne, Wyoming	8/94

Charles Harms was listed on the jurat page of the 2003 Annual Statement instead of Jon Gates. However, according to the Company, he did not start his term until January of 2004.

Officers of the Company consist of a President, Vice President, Secretary, and Treasurer. The officers are selected from the members of the Board of Directors and are elected at the annual meeting of the Board. As of December 31, 2003, officers were as follows:

President - Richard E. Torkelson
Vice President – Jon M. Gates
Secretary – Philip J. Schiel
Treasurer - Bruce R. Anderson

Article VI of the Bylaws provides for additional officers consisting of a Medical Director and Executive Director. As of December 31, 2003, these officers were as follows:

Medical Director – Vincent Miles, M.D.

Executive Director - Elisabeth Wasson

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. However, the Company is collecting conflict of interest statements from officers and key personnel as well. The Company had conflict of interest statements from all directors, officers, and key personnel for years 2001 thru 2003.

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

Capitalization Structure:

The Company has received half of its contributed capital from United 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.

On December 13, 1995, the Company entered into a non-revolving line-of-credit loan agreement with United Medical Center with a maximum limit of two times the number of participating providers times \$10,000. On April 19, 1996, as a requirement for issuance of a certificate of authority, the agreement was amended in order to qualify the loan as a subordinate debt/surplus note. A provision was added to require authorization from the Wyoming Insurance Commissioner prior to the repayment of principal or interest. Other provisions were amended to subordinate the lender's rights to "all other debts and obligations."

On April 23, 1998, United Medical Center authorized an additional \$1,500,000 for the Company to draw down, if necessary. As of December 31, 2003, the principal amount of the Company's surplus note is \$1,705,000.

Corporate Records:

The Company adopted its Articles of Incorporation and Bylaws on August 24, 1994. The Articles of Incorporation were last amended on August 14, 1996. The Bylaws were last amended on October 4, 1995. All amendments were approved by the Department and both documents are in compliance with Wyoming Insurance Statutes and Regulations.

The Company adopted a plan for insolvency on May 7, 1996. The plan 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 adequately documents the actions that are taken at its Board meetings.

Fidelity Bonds and Other Insurance:

The Company has fidelity insurance with Travelers Casualty and Surety Company of America. During 2003, the Company's fidelity bond coverage was less than ten percent of the prior year's gross premium.

W.S. § 26-34-107(b) states in part, "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."

Recommendation 2: It is recommended that the Company review its fidelity bond coverage annually and make any required adjustments to coverage limits in order to comply with W.S. § 26-34-107(b).

The Company did increase its aggregate liability limit to \$1,270,000 in January 2004, and is currently in compliance with W.S. § 26-34-107(b).

The Company has \$1,000,000 per claim and \$3,000,000 aggregate in professional liability insurance with Lexington Insurance Company. The Company also has special property and business income insurance with Hartford Fire Insurance Company.

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

As of January 1998, the Company has established a 401k plan. The Board of Directors decides annually if the Company will match the employees' contributions up to three percent (3%) of each employee's salary.

The Company 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 offices are 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 5 firms and 4 individuals as of December 31, 2003.

The Company provides several HMO benefit plans in its Wyoming service areas. The sponsoring physician members of Southeast Wyoming Preferred Physicians and United Medical Center are compensated using a budgeted capitation model. These providers submit claims to be paid according to a fee-for-service schedule which is adjusted monthly based on the budgeted capitation rate which is determined by the claims expense to premium revenue ratio. Providers that are not

capitalized sponsors are paid on a non-capitated fee-for-service basis.

The Company has also established a preferred provider organization (PPO) for one large employer in the State of Wyoming, but does not administer claims for the plan. Management service fees for the PPO were insignificant for 2003.

Growth of the Company:

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

Category	2001	2003	Increase
Premiums Earned	\$17,533,162	\$28,534,460	\$11,001,298
Net Admitted Assets	\$5,196,410	\$9,743,641	\$4,547,231
Net Worth	\$2,306,209	\$5,047,265	\$2,741,056
Members	10,100	10,474	374

Business In Force by State:

The Company operates only in the State of Wyoming and is authorized to conduct disability (including health) insurance business. The Company had gross written premiums of \$28,927,370 and \$23,060,984 for 2003 and 2002 respectively. United Medical Center is the Company's largest insured, representing sixteen percent (16%) of earned premiums for 2003.

Loss Experience:

Taylor-Walker & Associates, actuarial consultants, were retained to review the Company's loss experience and reserving methods. The consulting actuary accepted the claims unpaid amount of \$2,531,536, unpaid claims adjustment expenses of \$70,894 and the \$930,321 medical incentive pool accrual reported on the Company's Annual Statement as of December 31, 2003.

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 under stop-loss reinsurance agreements. Reliastar Life Insurance Company is a licensed insurer in the State of Wyoming. The reinsurance agreement covers inpatient hospital services for all commercial HMO and point-of-service policies. The Company retains \$75,000 for each member for

each agreement year. The Company then retains coinsurance of 10 percent (50 percent for non-approved transplants). The reinsurance limit is \$2,000,000 per member per agreement period. Ceded premiums were \$353,756, \$326,193, and \$357,693 in 2003, 2002 and 2001 respectively.

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

The Company also cedes business to the Wyoming Small Employer Health Reinsurance Program. Ceded premiums were \$39,154, \$25,070 and \$6,060 in 2003, 2002 and 2001 respectfully.

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 Examiner's Handbook and the Wyoming Insurance Code. The following item was noted.

Outstanding claims checks that are over five years old have not been properly reported to the State of Wyoming's Unclaimed Property Division. As of December 31, 2003, there were fourteen checks totaling \$3,318.85 that should have been reported.

W.S. § 34-24-103(a) provides: "Except as otherwise provided by this act, all intangible property, including any income or increment derived therefrom, less any lawful charges, that is held, issued or owing in the ordinary course of a holder's business and has remained unclaimed by the owner for more than five (5) years after it became payable or distributable is deemed abandoned."

W.S. § 34-24-118(a) provides: "A person holding property tangible or intangible, deemed abandoned and subject to custody as unclaimed property under this act, shall report to the administrator concerning the property as provided in this section."

Recommendation 3: It is recommended that the Company obtain the instructions and forms from the State Treasurer's Office and begin reporting unclaimed funds in accordance with Title 34, Chapter 24 of the Wyoming Statutes.

Market Conduct:

In conjunction with the financial examination, limited market conduct procedures were performed on the Company's claims settlement, marketing and advertising, and underwriting practices.

During the examination, it was noted that the Company's privacy policy is to send privacy notices regarding protected health information at least once every three years. The privacy policy was silent with respect to notices regarding protected financial information.

Because the Company is a financial institution as defined in Chapter 54, Section 4(k)(i) of the Administrative Rules and Regulations of the Wyoming Insurance Department, the Company is required to send an initial privacy notice regarding protected financial information to consumers, if applicable, and to its customers initially, on an annual basis and at any time the privacy policy is modified.

Specifically, Chapter 54, Section 6(a)(i) states, “General rule. A licensee shall provide a clear and conspicuous notice to customers that accurately reflects its privacy policies and practices not less than annually during the continuation of the customer relationship. Annually means at least once in any period of twelve (12) consecutive months during which that relationship exists. A licensee may define the twelve-consecutive-month period, but the licensee shall apply it to the customer on a consistent basis.”

Recommendation 4: It is recommended that the Company amend its privacy policy to include the required financial notice, and send privacy notices to its customers annually.

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, § 26-34-112 and § 26-34-134.

WINHEALTH PARTNERS
STATEMENT OF ASSETS AND LIABILITIES

as of December 31, 2003

ASSETS	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	\$306,937		\$306,937
Cash and Short-term Investments	8,702,691		8,702,691
Subtotals, Cash and Invested Assets	9,009,628		9,009,628
Investment Income Due and Accrued	6,947		6,947
Uncollected Premiums	404,906		404,906
Amounts Recoverable from Reinsurers	108,151		108,151
Other Amounts Receivable Under Reinsurance Contracts	40,536		40,536
Net Deferred Tax Asset	108,234		108,234
Guaranty Funds Receivable or On Deposit	14,269		14,269
Electronic Data Processing Equipment and Software	159,626	\$108,656	50,970
Furniture and Equipment	127,713	127,713	0
Health Care and Other Amounts Receivable	245,437	245,437	0
Other Assets Nonadmitted	26,558	26,558	0
Total Assets	\$10,252,005	\$508,364	\$9,743,641

LIABILITIES, CAPITAL AND SURPLUS	Covered	Uncovered	Total
Claims Unpaid	\$2,194,307	\$337,229	\$2,531,536
Accrued Medical Incentive Pool and Bonus Amounts	930,321		930,321
Unpaid Claims Adjustment Expenses	70,894		70,894
Premiums Received in Advance	300,458		300,458
General Expenses Due or Accrued	614,117		614,117
Current Federal Income Tax Payable and Interest Thereon	219,083		219,083
Amounts Withheld or Retained for the Account of Others	22,467		22,467
Aggregate Write-Ins for Other Liabilities	7,500		7,500
Total Liabilities	\$4,359,147	\$337,229	4,696,376
Gross Paid In and Contributed Surplus			2,616,026
Surplus Notes			1,705,000
Unassigned Funds			726,239
Total Capital and Surplus			5,047,265
Total Liabilities, Capital and Surplus			\$9,743,641

WINHEALTH PARTNERS
STATEMENT OF OPERATIONS
for the Year Ending December 31, 2003

	Uncovered	Total
Net Premium Income		\$28,534,460
Aggregate Write-Ins for Other Health Care Related Revenues		37,818
Total Revenues		28,572,278
Hospital/Medical Benefits		13,301,333
Other Professional Services		1,402,573
Outside Referrals	\$1,506,728	1,506,728
Emergency Room and Out-of-Area	830,663	2,315,759
Prescription Drugs		3,955,297
Incentive Pool, Withhold Adjustments and Bonus Amounts		902,116
Subtotal	2,337,391	23,383,806
Less: Net Reinsurance Recoveries	22,500	223,388
Total Hospital and Medical	2,314,891	23,160,418
Claim Adjustment Expenses		695,969
General Administrative Expenses		2,117,422
Total Underwriting Deductions	\$2,314,891	25,973,809
Net Underwriting Gain		2,598,469
Net Investment Income Earned		68,861
Net Investment Gains		68,861
Net Income Before Federal Income Taxes		2,667,330
Federal Income Taxes Incurred		504,683
Net Income		\$2,162,647

WINHEALTH PARTNERS
RECONCILIATION OF CAPITAL AND SURPLUS

January 1, 2001 Through December 31, 2003

	Per Annual Statement 2001	Per Annual Statement 2002	Per Examination 2003
Capital and Surplus Prior Reporting Year	\$2,008,804	\$2,306,209	\$2,901,435
Net Income or (Loss)	71,547	470,627	2,162,647
Change in Net Deferred Income Tax	591,928	6,568	(490,262)
Change in Nonadmitted Assets	(622,570)	(125,263)	331,370
Cumulative Effect of Changes in Accounting Principles			142,075
Change in Surplus Notes	200,000		
Paid in Surplus	56,500	243,294	
Net change in Capital and Surplus	297,405	595,226	2,145,830
Capital and Surplus End of Reporting Year	\$2,306,209	\$2,901,435	\$5,047,265

INTERNAL CONTROL ISSUES

There are several areas where there is a lack of segregation of duties and adequate review procedures. Segregation of duties and adequate review procedures within the accounting function are considered essential elements for a sound internal control structure.

First, finance personnel who account for cash receipts have control of checks and are making deposits. A check log is prepared, but this is also given to the finance department. Finance personnel also make the determination to return unsigned checks. It is sound business practice to segregate the accounting function from the control of assets.

Recommendation 5: It is recommended that two people open the mail and that a deposit slip and all copies of checks be completed at this time. All unsigned checks should be logged and given to another person to be returned. The deposit should be made by someone not involved in the accounting for cash receipts. Check copies and backup documentation can be given to the finance department to perform the accounting function.

Second, one claims check over \$10,000 had only one signature on it. The Company's internal control procedures stipulate that all checks over \$10,000 have two manual signatures. The effect of this condition is that payments over \$10,000 are not receiving the additional amount of supervisory review and could be subject to misappropriation.

Recommendation 6: It is recommended that all checks over \$10,000 be manually signed by the Chief Executive Officer and one Board member to comply with the Company's internal control procedures. If the Chief Executive Officer is not available, then two Board members should manually sign the check.

Finally, the Company had a verbal agreement with one of its consultants to provide the Company with computers in connection with the Company's disaster recovery plan. During the examination period, the consultant reorganized and could no longer provide the necessary service. After the examination period, the Company obtained a letter agreement with a local vendor to provide the computers. However, this agreement does not specify the type of computers, cost, or time frame for providing the equipment. Therefore, the Company has a disaster recovery plan that it may not be able to implement.

It is good business practice to negotiate a written agreement for disaster recovery services that sets forth the specific items that are required for the Company to continue its operations.

Recommendation 7: It is recommended that the Company formalize its agreement with the local vendor. The agreement should specify the types of computers, cost and time frame for providing the computers, and any other necessary items that are required for the Company to continue its operations in the event of a disaster.

SUMMARY OF RECOMMENDATIONS

Recommendation 1: It is recommended that the Company comply with its Bylaws regarding the number of directors it has on its Board.

Recommendation 2: It is recommended that the Company review its fidelity bond coverage annually and make any required adjustments to coverage limits in order to comply with W.S. § 26-34-107(b).

Recommendation 3: It is recommended that the Company obtain the instructions and forms from the State Treasurer's Office and begin reporting unclaimed funds in accordance with Title 34, Chapter 24, of the Wyoming Statutes.

Recommendation 4: It is recommended that the Company amend its privacy policy to include the required financial notice, and send privacy notices to its customers annually.

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Recommendation 6: It is recommended that all checks over \$10,000 be manually signed by the Chief Executive Officer and one Board member to comply with the Company's internal control procedures. If the Chief Executive Officer is not available, then two Board members should manually sign the check.

Recommendation 7: It is recommended that the Company formalize its agreement with the local vendor. The agreement should specify the types of computers, cost and time frame for providing the computers, and any other necessary items that are required for the Company to continue its operations in the event of a disaster.

CONCLUSION

Jeff Braunschweig, Katy Cotton, Lloyd Wilder, and G. Douglas Melvin, examiners for the Wyoming Department of Insurance, participated in the examination. Review of the Company's reserves was conducted by Robert D. MacLennan, FSA, MAAA, of the firm Taylor-Walker & Associates, Inc. The review of the quality assurance program was conducted by Bob Crowther 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,

G. Douglas Melvin, 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 November 2004.

Witness my hand and official seal.

Notary Public

My Commission Expires: _____