

REPORT OF  
FINANCIAL EXAMINATION  
**WINHEALTH PARTNERS**

AS OF  
DECEMBER 31, 2009



STATE OF WYOMING  
DEPARTMENT OF INSURANCE  
CHEYENNE, WYOMING

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**SALUTATION**

Cheyenne, Wyoming

February 4, 2011

Honorable Joseph Torti, III  
Chairman, NAIC Financial Condition  
(E) Committee  
Insurance Division  
Department of Business Regulation  
State of Rhode Island  
1511 Pontiac Avenue, Bldg. No. 69-2  
Cranston, RI 02920

Honorable Kenneth G. Vines  
Insurance Commissioner  
State of Wyoming  
106 East 6<sup>th</sup> Avenue  
Cheyenne, WY 82002-0440

Honorable Monica J. Lindeen  
Western Zone Secretary  
Montana 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, 2009, of the financial condition, management, and affairs of

**WINHEALTH PARTNERS**

hereinafter referred to as the "Company," at its home office located at 1200 East 20<sup>th</sup> 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, 2006. The current examination covers the period from January 1, 2007, through December 31, 2009.

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 five recommendations. The recommendations relating to the by-laws, annual members meetings, unclaimed property reports, and repurchase agreements were resolved. The issue involving the privacy notice was not within the scope of the current risk-focused exam procedures and was not reviewed as part of this exam.

The recommendation involving the Company’s fidelity bond was not resolved during the current exam period. It was recommended that the Company review its fidelity bond coverage annually and make required adjustments to coverage limits. Additionally, it was recommended 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). 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 October 2009. Subsequent to the exam period, the by-laws were amended in April 2010.

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 documents the actions that are taken at its board meetings. However, at the December 2008 meeting, the Board of Directors approved the distribution of a year-end bonus without a quorum; the intent was to ratify the decision during the following meeting. The board failed to ratify the decision during the following meeting. In addition, the board did not authorize investment transactions after June 2009.

The Company was unable to provide minutes from the Finance/Audit Committee meetings for 2007 through February 2009, and the minutes for June and August of 2009 were partial. Therefore, the Company did not document that the Finance/Audit Committee approved the auditor during that time period.

Decisions made without a quorum is contrary to Article IV, Section 4.5 of the current by-laws, and Article III, Section 5 of the by-laws applicable during the exam period.

Wyoming Statute § 26-7-105(a) states, “No insurer shall make any investment or loan, other than a policy loan or an annuity contract loan of a life insurer, unless the investment or loan is authorized by the insurer's board of directors or by a committee authorized by the board and charged with the supervision or making of the investment or loan. The minutes of any such committee shall be recorded and regular reports of the committee shall be submitted to the board of directors.”

Wyoming Statute § 26-34-113 states, “With the exception of investments made in accordance with W.S. 26-34-105(a)(i), the funds of a health maintenance organization shall be invested only in securities or other investments permitted by chapter 7 of this code.”

The Company was unable to demonstrate compliance with its Finance/Audit Committee policies as it was unable to provide minutes of the Finance/Audit Committee meetings.

**Recommendation 1:** It is recommended that the Board of Directors approve decisions only when there is a quorum, and review and approve all investment transactions that have occurred since the last board meeting. It is also recommended that minutes of the Finance/Audit Committee be maintained for review.

It should be noted that after this was brought to the attention of the board in August 2010, the board reviewed and approved the investment transactions during the remaining 2010 board meetings.

**Management, Control, and Corporate Governance:**

The control and direction of the Company rests with its Board of Directors. The number of directors is fixed at 12 by the corporation’s by-laws. Four members of the board are elected by Cheyenne Regional Medical Center (CRMC); four are elected by Southeast Wyoming Preferred Physicians (SWPP), a Wyoming nonprofit corporation, and four represent the Cheyenne community and are elected by the directors selected by CRMC and SWPP.

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, 2009, the following directors were holding office:

<b>Director Name</b>	<b>Principal Occupation &amp; Location</b>
Paul S. Howard	President of the Board of Trustees, Cheyenne Regional Medical Center, Cheyenne, Wyoming
John L. Lucas, M.D.	Chief Executive Officer, Cheyenne Regional Medical Center Cheyenne, Wyoming
Paul Panico	Chief Operating Officer, Cheyenne Regional Medical Center Cheyenne, Wyoming
Kimberly A. Webb	Chief Financial Officer, Cheyenne Regional Medical Center Cheyenne, Wyoming
Rex L. Dolan, D.D.S.	Doctor of Dental Surgery, Cheyenne, Wyoming
Peter G. Perakos, M.D.	Physician, Cheyenne, Wyoming
Philip J. Schiel, M.D.	Physician, Cheyenne, Wyoming

Richard E. Torkelson, M.D.	Orthopedic Surgeon, Cheyenne, Wyoming
Lawrence T. Atwell	Senior Consultant, ALIGN, Cheyenne, Wyoming
Oliver Kenneth Erickson	Consultant, Cheyenne, Wyoming
Steven F. Freudenthal	Attorney, Cheyenne, Wyoming
Kevin R. Mallory	President, Gator Industries, Cheyenne, Wyoming

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The officers of the Company are elected by the members of the Board of Directors. As of December 31, 2009, the officers were as follows:

President/Chief Executive Officer	John Louis Lucas, M.D.
Executive Vice President/Chief Operating Officer	Stephen King Goldstone
Secretary	Lawrence Thomas Atwell
Treasurer	Kimberly Ann Webb
Medical Director	John Edward Glode, M.D.

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

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. There were 12 board member statements missing for 2007, 9 for 2008, and 4 for 2009.

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 2:** 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.

The 2009 CPA audit engagement letter contained an indemnification clause that held harmless and released the audit firm from all claims, liabilities, losses, and costs arising in circumstances where there was a knowing misrepresentation by a member of the Company’s management which caused, in any respect, the audit firm’s breach of contract or negligence.

Pursuant to Wyoming Statute § 26-3-306(a), the commissioner shall not recognize any person or firm as a qualified independent certified public accountant if said person or firm has entered into an agreement of indemnification.

**Recommendation 3:** It is recommended that the Company review future audit engagement letters to ensure they do not contain indemnification clauses that are prohibited by W.S. § 26-3-306(a).

It is noted that both the Company and the CPA firm acted quickly to correct this problem and reissued a corrected and compliant engagement letter during the course of the examination.

### **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 has fidelity insurance with St. Paul Fire & Marine Insurance Company.

During the examination period, the Company's fidelity bond coverage was less than 10 percent of the prior year's gross premiums.

Also missing in the current policy is the 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.

As was recommended during the two previous exams, the Company did not increase its coverage as premiums increased. Additionally, the required language for discovery and expiration was omitted.

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 review its fidelity bond coverage annually and make any required adjustments to coverage limits. Additionally, it is recommended that the Company have the present 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 \$1,000,000 per claim and \$3,000,000 aggregate in professional liability insurance with Lexington Insurance Company. The Company also 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 5 firms and 23 individuals as of December 31, 2009.

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:

<b>Category</b>	<b>2007</b>	<b>Per Examination 2009</b>	<b>Increase (Decrease)</b>
Premiums Earned	\$40,525,804	\$36,787,306	(\$3,738,498)
Net Admitted Assets	\$15,866,347	\$15,988,405	\$122,058
Net Worth	\$10,668,161	\$7,902,267	(\$2,765,894)
Members	11,590	8,635	(2,955)

### **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 \$37,633,742 for 2009, \$45,413,969 for 2008, and \$41,085,488 for 2007.

### **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, 2009. Given the benefit of the 2010 information that was available at the time of the exam, the consulting actuary recommended adjustments to the amounts reported for Claims Unpaid, Unpaid Claims Adjustment Expenses, and Aggregate Health Policy Reserves. These adjustments are reflected in the financial statements within this report.

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

### **Reinsurance:**

During the examination period, the Company ceded business to Westport Insurance Corporation (an affiliated company within the Swiss Re group) until November 1, 2009. Westport is a licensed insurer in the State of Wyoming. Under this agreement, the Company retained \$150,000 for each member for the agreement year, with an average daily maximum of \$8,000 for all hospital stays.

Effective November 1, 2009, the Company placed its coverage with ReliaStar Life Insurance Company under an excess of loss reinsurance agreement. ReliaStar Life Insurance Company is a licensed insurer in the State of Wyoming. The reinsurance agreement provides coverage for claims in all service areas with no daily maximum coverage. The Company retains \$200,000 for each member for the agreement year.

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

The Company and ReliaStar are using Evergreen Reinsurance as a reinsurance intermediary. The Company and its reinsurer failed to determine who the intermediary represented and failed to ensure that an appropriate contract was in place with the intermediary.

Pursuant to W.S. § 26-47-103(a), reinsurance intermediary brokers should be licensed in the State of Wyoming or in another state with similar laws. In addition, W.S. § 26-47-104 states, "Transactions between the reinsurance intermediary broker and the insurer it represents in such capacity shall only be entered into pursuant to a written authorization, specifying the responsibilities of each party."

Pursuant to W.S. § 26-47-103(b), the reinsurance intermediary manager should be licensed in the State of Wyoming or in another state with similar laws. In addition, W.S. § 26-47-107 states,

“transactions between a reinsurance intermediary manager and the reinsurer it represents shall only be entered into pursuant to a written contract specifying the responsibilities of each party.”

**Recommendation 5:** It is recommended that prior to entering into business transactions with a reinsurance intermediary, the Company verify that the intermediary is qualified to do business with Wyoming domestic insurers pursuant to Chapter 47 of the Wyoming Insurance Code.

It is also recommended that the Company comply with W.S. § 26-47-104 if using a broker, or W.S. § 26-47-107 if using a manager, and put its arrangements in a written agreement.

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 item was noted.

Payments to the former CEO’s brother for building improvements totaling \$67,769 from 2007 through 2009 did not include evidence of obtaining multiple bids before awarding the contract. This is a factor taken into account in determining whether a transaction with a related party was at arm’s length. It is noted that this CEO is no longer affiliated with the Company.

Statement of Statutory Accounting Principles (SSAP) 25, paragraph 1, states in part, “Related party transactions are subject to abuse because reporting entities may be induced to enter transactions that may not reflect economic realities or may not be fair and reasonable to the reporting entity or its policyholders. As such, related party transactions require specialized accounting rules and increased regulatory scrutiny.”

SSAP 25, paragraph 2, states in part, “Related parties are defined as entities that have common interests as a result of ownership, control, affiliation or by contract. Related parties shall include but are not limited to the following:

- d. The management of the reporting entity, its parent or affiliates (including directors);
- e. Members of the immediate families of principal owners and management of the reporting entity, its parent or affiliates and their management;
- f. Parties with which the reporting entity may deal if either party directly or indirectly controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interest; . . .”

**Recommendation 6:** It is recommended that the Company perform and document due diligence when contracting with related parties, which includes obtaining multiple written bids for construction work in order to prove that transactions are arm's length and are fair and reasonable.

**Statutory Deposit:**

The Company has a US Treasury Bill with a fair value of \$324,981 on deposit in favor of the State of Wyoming for the protection of the Company's enrollees as of December 31, 2009.

**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 § 26-34-112 and § 26-34-134.

The Wyoming Department of Health's review of the Company's quality assurance program indicated quality assurance program activities are not being communicated to the governing body, providers, and appropriate organizational staff as required by W.S. § 26-34-108(f).

Wyoming Statute § 26-34-108(f) states, "The organization shall establish a mechanism for periodic reporting of quality assurance program activities to the governing body, providers and appropriate organization staff."

**Recommendation 7:** It is recommended that the Company re-establish a mechanism for periodic reporting of quality assurance program activities to the governing body, providers and appropriate organizational staff as required by W.S. § 26-34-108(f).

**Subsequent Events:**

Subsequent to the exam period, on October 1, 2010, the Company entered into a management agreement with Cheyenne Health Services Management LLC (CHSM). CHSM will manage an Accountable Care Organization with Cheyenne Regional Medical Center and the Company. All of the Company's employees became employees of CHSM on October 1, 2010.

Subsequent to the exam period, the Company had several changes in its officers and Board of Directors. The current CEO is Stephen K. Goldstone and the current Medical Director is Kirk T. Shamley, M.D. In addition, the following directors are no longer with the Company: Rex Dolan, D.D.S., Peter Perakos, M.D., Philip Schiel, M.D., Richard Torkelson, M.D., and Steven Freudenthal. The following individuals are now serving as directors as of February 4, 2011: John Babson, M.D., Carol Fischer, M.D., Phillip Haberman, M.D., Michael Janssen, M.D., and Paul Panico.

**WINHEALTH PARTNERS**  
**STATEMENT OF ASSETS AND LIABILITIES**  
as of December 31, 2009

ASSETS	Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	\$8,350,000		\$8,350,000	
Real Estate	1,301,405		1,301,405	
Cash, Cash Equivalents and Short-term Investments	4,124,061		4,124,061	
Subtotals, Cash and Invested Assets	13,775,466		13,775,466	
Investment Income Due and Accrued	10,432		10,432	
Uncollected Premiums	112,986		112,986	
Amounts Recoverable from Reinsurers	109,897		109,897	
Current Federal and Foreign Income Tax Recoverable	1,106,588		1,106,588	
Net Deferred Tax Asset	570,690		570,690	1
Guaranty Funds Receivable or On Deposit	3,171		3,171	
Electronic Data Processing Equipment and Software	185,883	63,212	122,671	
Furniture and Equipment	103,758	103,758	0	
Health Care and Other Amounts Receivable	90,332	66,400	23,932	
Aggregate Write-Ins for Other Than Invested Assets	199,825	47,253	152,572	
Total Assets	\$16,269,028	\$280,623	\$15,988,405	
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LIABILITIES, CAPITAL AND SURPLUS	Covered	Uncovered	Total	
Claims Unpaid	\$3,644,293	\$131,338	\$3,775,631	2
Unpaid Claims Adjustment Expenses	113,269		113,269	2
Aggregate Health Policy Reserves	3,609,163		3,609,163	2
Premiums Received in Advance	389,859		389,859	
General Expenses Due or Accrued	190,066		190,066	
Amounts Withheld or Retained for the Account of Others	650		650	
Aggregate Write-Ins for Other Liabilities	7,500		7,500	
Total Liabilities	\$7,954,800	\$131,338	8,086,138	
Gross Paid In and Contributed Surplus			4,570,038	
Unassigned Funds			3,332,229	1, 2
Total Capital and Surplus			7,902,267	
Total Liabilities, Capital and Surplus			\$15,988,405	

**WINHEALTH PARTNERS**  
**STATEMENT OF OPERATIONS**  
for the Year Ending December 31, 2009

	Uncovered	Total	Notes
Net Premium Income		\$36,787,306	
Aggregate Write-Ins for Other Health Care Related Revenues		8,612	
Total Revenues		36,795,918	
Hospital/Medical Benefits		20,997,907	2
Other Professional Services		1,750,450	
Outside Referrals	\$615,073	1,950,398	
Emergency Room and Out-of-Area	608,410	7,405,182	
Prescription Drugs		3,548,173	
Subtotal	1,223,483	35,652,110	
Less: Net Reinsurance Recoveries		853,163	
Total Hospital and Medical	1,223,483	34,798,947	
Claims Adjustment Expenses		1,081,458	2
General Administrative Expenses		4,309,649	
Increase in Reserves for Life, Accident and Health Contracts		3,609,163	2
Total Underwriting Deductions	\$1,223,483	43,799,217	
Net Underwriting Gain or (Loss)		(7,003,299)	
Net Investment Income Earned		94,700	
Net Investment Gain		94,700	
Net Income or (Loss) Before Federal Income Taxes		(6,908,599)	
Federal Income Taxes Incurred		(1,175,988)	
Net Income (Loss)		(\$5,732,611)	

**WINHEALTH PARTNERS**  
**RECONCILIATION OF CAPITAL AND SURPLUS**  
January 1, 2007 Through December 31, 2009

	Per Annual Statement 2007	Per Annual Statement 2008	Per Examination 2009	Notes
Capital and Surplus Prior Reporting Year	\$10,227,767	\$10,668,161	\$13,085,133	
Net Income or (Loss)	93,047	2,509,588	(5,732,611)	
Change in Net Deferred Income Tax	21,016	(295,813)	527,941	<b>1</b>
Change in Non-admitted Assets	276,331	3,197	(63,196)	
Paid in Surplus	50,000	200,000	85,000	
Net change in Capital and Surplus	440,394	2,416,972	(5,182,866)	
Capital and Surplus End of Reporting Year	\$10,668,161	\$13,085,133	\$7,902,267	

**WINHEALTH PARTNERS**  
**ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION**  
December 31, 2009

	2009	Notes
Capital and Surplus per 2009 Annual Statement	\$10,903,703	
Change in Net Deferred Income Tax	548,255	<b>1</b>
Change in Claims Unpaid	57,739	<b>2</b>
Change in Unpaid Claims Adjustment Expense	1,733	<b>2</b>
Change in Aggregate Health Policy Reserves	(3,609,163)	<b>2</b>
Total change in Capital and Surplus	(3,001,436)	
Capital and Surplus per examination	\$7,902,267	

**WINHEALTH PARTNERS**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 1:** Due to the actuarial adjustments discussed in Note 2, the net deferred tax asset was increased by \$548,255 from \$22,435 to \$570,690.

**Note 2:** Based on the actuarial review, claims unpaid and hospital and medical benefits were overstated by \$57,739. Unpaid claims adjustment expenses and claims adjustment expense were overstated by \$1,733. Aggregate health policy reserves were understated by \$3,609,163. The financial statements in this report were adjusted to reflect these actuarial items. These adjustments are a result of additional information regarding claims experience that was available during the exam fieldwork that was conducted in 2010. The Company and its consulting actuary followed accurate and appropriate procedures in establishing the actuarial reserves and liabilities given the information that was available to them as of December 31, 2009. It should be noted that after this adjustment, the Company remains financially solvent, and its surplus continues to exceed the minimum risk-based capital requirement and the statutorily required amount pursuant to W.S. § 26-34-114. In addition, the Company has continued to meet all of its policyholder obligations and has been paying claims in accordance with its policies and procedures. The Company was not required to re-state its 2009 financial statements to reflect the aforementioned adjustment. The losses contemplated in the examination adjustment are reflected in the Company's 2010 financial statements.

## SUMMARY OF RECOMMENDATIONS

**Recommendation 1:** It is recommended that the Board of Directors approve decisions only when there is a quorum, and review and approve all investment transactions that have occurred since the last board meeting. It is also recommended that minutes of the Finance/Audit Committee be maintained for review.

It should be noted that after this was brought to the attention of the board in August 2010, the board reviewed and approved the investment transactions during the remaining 2010 board meetings.

**Recommendation 2:** 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 3:** It is recommended that the Company review future audit engagement letters to ensure they do not contain indemnification clauses that are prohibited by W.S. § 26-3-306(a).

It is noted that both the Company and the CPA firm acted quickly to correct this problem and reissued a corrected and compliant engagement letter during the course of the examination.

**Recommendation 4:** It is recommended that the Company review its fidelity bond coverage annually and make any required adjustments to coverage limits. Additionally, it is recommended that the Company have the present 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 prior to entering into business transactions with a reinsurance intermediary, the Company verify that the intermediary is qualified to do business with Wyoming domestic insurers pursuant to Chapter 47 of the Wyoming Insurance Code.

It is also recommended that the Company comply with W.S. § 26-47-104 if using a broker, or W.S. § 26-47-107 if using a manager, and put its arrangements in a written agreement.

**Recommendation 6:** It is recommended that the Company perform and document due diligence when contracting with related parties, which includes obtaining multiple written bids for construction work in order to prove that transactions are arm's length and are fair and reasonable.

**Recommendation 7:** It is recommended that the Company re-establish a mechanism for periodic reporting of quality assurance program activities to the governing body, providers and appropriate organizational staff as required by W.S. § 26-34-108(f).

**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 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,

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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 2011.

Witness my hand and official seal.

\_\_\_\_\_  
Notary Public

My Commission Expires: \_\_\_\_\_