

**STATE OF WASHINGTON  
OFFICE OF THE INSURANCE  
COMMISSIONER**



**FINANCIAL EXAMINATION**

**OF**

**MOLINA HEALTHCARE OF WASHINGTON, INC.  
BOTHELL, WASHINGTON**

**NAIC CODE 96270  
DECEMBER 31, 2008**

**Participating States:  
Washington**

Order No. 10-15  
Molina Healthcare of Washington, Inc.  
Exhibit A

**SALUTATION**

Seattle, Washington  
January 26, 2010

The Honorable Mike Kreidler, Commissioner  
Washington State Office of the Insurance Commissioner (OIC)  
Insurance Building-Capitol Campus  
302 Sid Snyder Avenue SW, Suite 200  
Olympia, WA 98504

The Honorable Alfred W. Gross, Commissioner  
State Corporation Commission  
Bureau of Insurance  
Commonwealth of Virginia  
Chair, NAIC Financial Condition (E) Committee  
PO Box 1157  
Richmond, VA 23218

The Honorable Christina Urias, Director  
NAIC Secretary, Western Zone  
Arizona Department of Insurance  
2910 North 44<sup>th</sup> Street, Suite 210  
Phoenix, AZ 85018-7256

Dear Commissioners and Director:

In accordance with your instructions, and in compliance with the statutory requirements of RCW 48.03.010, an Association examination was made of the corporate affairs and financial records of

Molina Healthcare of Washington, Inc.

of

Bothell, Washington

hereinafter referred to as "MHW" or "the Company", at its home office, 21540 30<sup>th</sup> Drive SE, Bothell, Washington 98021. This report is respectfully submitted showing the condition of the Company as of December 31, 2008.

**CHIEF EXAMINER'S AFFIDAVIT**

I hereby certify I have read the attached Report of the Financial Examination of Molina Healthcare of Washington, Inc., of Bothell, Washington. This report shows the financial condition and related corporate matters as of December 31, 2008.



Patrick H. McNaughton  
Chief Examiner

1-26-10

Date

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## SCOPE OF EXAMINATION

This examination covers the period January 1, 2004 through December 31, 2008 and comprises a comprehensive review of the books and records of the Company. The examination followed the statutory requirements contained in the Washington Administration Code (WAC), the Revised Code of Washington (RCW), and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (FCEH). The examination included identification and disposition of material transactions and events occurring subsequent to the date of examination through the end of field work, (December 2, 2009).

Corporate records, external reference materials, and various aspects of the Company's operating procedures and financial records were reviewed and tested during the course of this examination and are commented upon in the following sections of this report. In addition, the certified public accountant's (CPA's) work papers were reviewed and utilized, where possible, to facilitate efficiency in the examination.

This examination was performed in compliance with the 2009 NAIC Financial Condition Examiners Handbook which requires the examiner to consider the Company's risk management process, corporate governance structure, and control environment. The examiners utilized the information obtained during the examination to assess MHW's overall potential risks both currently and on an on-going basis, allowing the examiners to focus on the Company's greatest areas of risk, and providing assurance on the Company's financial statements as of the examination date.

## INSTRUCTIONS

The examiners reviewed the Company's filed 2008 NAIC Annual Statement as part of the statutory examination. This review was performed to determine if the Company completed the NAIC Annual Statement in accordance with the NAIC Annual Statement Instructions and to determine if the Company's accounts and records were prepared and maintained in accordance with Title 48 RCW, Title 284 WAC, and the NAIC Statements of Statutory Accounting Principles (SSAP) as contained in the NAIC Accounting Practices and Procedures Manual (AP&P). The following summarizes the exceptions noted while performing this review.

### **1. Annual Statement Errors**

The results of the examination disclosed several instances in which the Company's filing of the 2008 NAIC Annual Statement did not conform to the NAIC Accounting Practices and Procedures Manual and the NAIC Annual Statement Instructions. While the Company needs to correct these practices, none of the following items in this instruction was material to the financial statements and no examination adjustments were necessary.

- a.** The Company did not disclose the number of shares of capital stock authorized, issued and outstanding in the Notes to Financial Statements, Note 13, as required.

- b. The Company recorded the amount due from Department of Social and Health Services (DSHS) for its portion of hemophiliac drugs as a reinsurance recoverable on page 2, line 14.1, Schedule S, Part 2 and the Underwriting and Investment Exhibit, Part 2, when it should have been recorded as a Health Care Receivable on page 2, line 22. DSHS is not a qualified reinsurer and the contract with DSHS is not a valid reinsurance treaty.
- c. The Company reported Money Market funds on Schedule E when they should have been reported on Schedule DA.
- d. The Company reported bonds on Schedule D as 1 when they should have been reported as 1FE.
- e. The Company prepared Schedule T on an earned basis instead of on a written basis.
- f. The Company reported \$1,310,569 in healthcare savings expenses as Hospital and Medical Expenses on page 4, line 9, of the Statement of Revenue and Expenses, when it should have been reported as Claims Adjustment Expenses (CAE) on line 20 of the Statement of Revenue and Expenses. Per SSAP No. 85, items that reduce the cost of health services, such as healthcare savings costs paid to vendors for their assistance in making claims recoveries, should be classified as CAE.
- g. The Company did not disclose information for experience rated refunds in the Notes to Financial Statements, Note 23, as required.

**The Company is instructed to comply with RCW 48.43.097 by filing its financial statements in the form and context approved by the NAIC and WAC 284-07-050(2)(a) which requires adherence to the NAIC Annual Statement Instructions and the AP&P.**

## **2. Investment Approval by Board of Directors**

Investment transactions were not documented as approved by the Board of Directors (BOD) in the BOD minutes. RCW 48.13.340 requires all investments, loans, sales or exchanges to be approved or authorized by the BOD or by a committee charged by the BOD or the bylaws with the duty of making such investment, loan, sale or exchange. The minutes of any such committee shall be recorded and reports thereof shall be submitted to the BOD for approval or disapproval.

**The Company is instructed to have a record of investment transactions approved by the BOD as required by RCW 48.13.340.**

## **3. Investment Custodial Agreements**

The Company responded in its 2008 NAIC Annual Statement General Interrogatories 26.01 that its custodial agreement with US Bank complied with the FCEH. However, it did not contain several provisions as required by the FCEH.

**The Company is instructed to comply with RCW 48.43.097 by filing its financial statements in the form and context approved by the NAIC and WAC 284-07-050(2)(a) which requires adherence to the NAIC Annual Statement Instructions and the AP&P. The Company is also instructed to execute a revised or amended custodial agreement that complies with the FCEH.**

#### **4. Federal Income Tax Estimates**

The Company overpaid its Federal Income Tax estimates by \$4.9 million for 2008. This was due to the incorrect and inconsistent tax allocation methodology used by the Company to allocate federal income tax among members of the holding company. The “stand-alone basis” required by the tax sharing agreement was not used. Per RCW 48.31C.050(1)(c), expenses incurred must be allocated to the health carrier in conformity with customary statutory accounting principles consistently applied within the health carrier holding company system. Because the balance of Federal Income Tax Recoverable reflects the overpayment amount, no adjustment or reclassification was necessary.

**The Company is instructed to adhere to RCW 48.31C.050(1)(c) and ensure controls are in place to verify that expenses allocated by the Company are fair and reasonable and allocated consistently within the health carrier holding company system.**

#### **5. Statement of Actuarial Opinion**

The Company’s Statement of Actuarial Opinion did not include two paragraphs required by the NAIC 2008 Health Annual Statement Instructions. The SAO must be prepared according to the NAIC Annual Statement Instructions. The actuary must review and opine on all required items listed in the Actuarial Opinion Section of the Health Annual Statement Instructions. In particular, the Underwriting and Investment Exhibit – Part 2B must be prepared consistent with Section 3.6, “Follow-Up Studies,” contained in the Actuarial Standards of Practice No. 5, “Incurred Health and Disability Claims” adopted by the Actuarial Standards Board of the American Academy of Actuaries in December 2000.

**The Company is instructed to comply with RCW 48.43.097 by filing its financial statements in the form and context approved by the NAIC and WAC 284-07-060(2)(a) which requires adherence to the NAIC Annual Statement Instructions and the AP&P. Each carrier shall include with its annual statement a Statement of Actuarial Opinion setting forth the actuary’s opinion related to the carrier’s reserves and other actuarial items, prepared in accordance with the NAIC Annual Statement Instructions and the AP&P.**

#### **6. Experience Rating Refund**

The Company has Medicare Options and Options Plus plans that include a Medicare Part D risk sharing arrangement. Although the calculations show that there are no refund liabilities as of the end of 2008, the actuary who signed the Statement of Actuarial Opinion (SAO) did not do the calculations. Based on SSAP INT 05-05 Paragraph 4.b, Medicare Part D, Risk Sharing Liability

is subject to SSAP No. 66 (Experience Rated Refunds Contracts), and reflected on Line 4 (Aggregate Health Policy Reserves), Page 3 of the NAIC Annual Statement. The NAIC Annual Statement Instructions require that the experience rated refund liability be subject to actuarial review and be included in the Statement of Actuarial Opinion attached to the NAIC Annual Statement.

**The Company is instructed to comply with RCW 48.43.097 by filing its financial statements in the form and context approved by the NAIC and WAC 284-07-060(2)(a) which requires adherence to the NAIC Annual Statement Instructions and the AP&P. Each carrier shall include with its annual statement a Statement of Actuarial Opinion setting forth the actuary's opinion related to the carrier's reserves and other actuarial items, prepared in accordance with the NAIC Annual Statement Instructions and the AP&P.**

## **7. Medicare Part D Accounting**

The Company combined aggregate risk sharing (experience rating refunds), Medicare Part D reinsurance, and low income cost sharing subsidy into one category of liability. Experience rating refunds should be booked as Accrued Retrospective Premiums (Line 13.3) if it is an asset or as Aggregate Health Policy Reserves (Line 4) if it is a liability. Part D reinsurance and low income cost sharing subsidy should be booked as Amounts Receivable Relating to Uninsured Plan (Line 15) if it is an asset or as Liability for Amounts Held under Uninsured Plan (Line 20) if it is a liability. Due to immateriality, no reclassification was necessary.

**The Company is instructed to comply with RCW 48.43.097 by filing its financial statements in the form and context approved by the NAIC and WAC 284-07-050(2)(a) which requires adherence to the NAIC Annual Statement Instructions and the AP&P.**

## **COMMENTS AND RECOMMENDATIONS**

### **1. Policy Addressing Use of Wireless Technology**

Molina Healthcare, Inc. (Molina), the parent company of MHW, does not have a policy addressing the risks associated with wireless technology. Molina allows the IS staff to wirelessly connect to the network. Neither Molina, nor MHW, has a written, approved policy for this informal practice.

The IS Department does not periodically scan for rogue wireless access points within Company's premises. They rely upon the security steps they have implemented to disallow a staff member from installing unauthorized software and hardware. Such a practice does not take into consideration the possibility that a person may find a way to circumvent these security controls.

**It is recommended that the Company implement a formal, written, and approved policy defining the authorized use of wireless technology. It is recommended that the IS**

**Department periodically scan the Company's premises for rogue wireless access points to prevent unauthorized use.**

## **2. Fidelity Bond**

The amount of Fidelity Insurance carried by Molina is \$2,000,000. Based on the FEHB exposure index, the suggested amount of fidelity bond for Molina and its affiliates is from \$2,500,000 to \$3,000,000.

**Based on the FCEH exposure index, it is recommended that fidelity bond coverage be increased to the suggested minimum amount of \$2,500,000.**

## **3. Lag Table Development**

The Company backdates claim reversals, credits, and voided checks in its loss triangles. These items should be included in the current cell and should not be backdated.

**It is recommended that the paid claims recorded in the incurred-paid triangles should not be changed over time for the same incurred-paid month. The Company should establish a procedure to ensure that the incurred-paid triangles are of sufficient quality to perform the analysis, and paid claims recorded in the incurred-paid triangles are consistent with the paid claims booked in the general ledger.**

## **COMPANY PROFILE**

### **Company History**

The Company was incorporated in Washington in 1984 as Foundation Health Plan, Inc., a wholly owned subsidiary of Foundation Health Corporation. The Company was purchased in 1989 by Qual-Med, Inc., a Colorado Corporation. In 1990, the name of the Company was changed to Qual-Med Washington Health Plan, Inc. In 2000, the Company was purchased by Molina Healthcare, Inc., a California Corporation. The name was then changed to Molina Healthcare of Washington, Inc. (MHW). MHW is licensed as a Health Maintenance Organization (HMO).

The Company contracts with the DSHS to provide care for members enrolled through the Managed Medicaid Assistance programs. These programs are also known as Healthy Options (HO), the Washington Medicaid Integration Project (WMIP), and the State Children's Health Insurance Plan (SCHIP). The Company also contracts with the Health Care Authority (HCA) to provide care for members enrolled through the Basic Health (BH) and the Basic Health Plus (BH+) programs and the Center for Medicare and Medicaid Services (CMS) to provide care for members enrolled in the Medicare Advantage (Molina Advantage) program.

## Capitalization

As of December 31, 2008, the Company had 100 shares of common capital stock with no par value issued and outstanding for the total amount of \$1 million. The Company did not disclose in the Notes to Financial Statements, Note 13, the number of shares of capital stock authorized, issued and outstanding. (See Instruction No. 1.a.)

## Dividends to Stockholders

The Company paid dividends to Molina in the years 2008 and 2007 totaling \$60,000,000 and \$30,000,000, respectively.

## Territory and Plan of Operation

MHW is licensed to transact business in the state of Washington.

## Growth of Company

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital &amp; Surplus</u>
2008	\$152,922,900	\$58,302,351	\$94,620,549
2007	175,307,555	61,685,596	113,621,959
2006	161,050,725	65,805,656	95,245,069
2005	152,388,799	81,339,758	71,049,041
2004	114,793,350	55,446,132	59,347,218

<u>Year</u>	<u>Total Revenue</u>	<u>Underwriting Gain (Loss)</u>	<u>Investment Income</u>	<u>Net Income</u>
2008	\$709,310,319	\$55,485,694	\$6,067,079	\$40,397,230
2007	652,789,860	60,546,438	9,213,828	45,477,166
2006	612,313,142	63,372,877	7,514,971	46,490,821
2005	591,430,825	37,707,282	4,191,321	27,229,203
2004	461,525,115	48,944,832	1,550,191	33,440,489

## AFFILIATED COMPANIES

The Company is a wholly owned subsidiary of Molina. Molina also has other wholly owned or majority-owned subsidiaries located in the states of California, Georgia, Indiana, Michigan, Missouri, Nevada, New Mexico, Ohio, Texas, and Utah.

## **Intercompany Agreements**

The Company was a party to intercompany contracts with Molina and affiliates. Significant agreements in force at December 31, 2008 were: Federal Income Tax Allocation Agreement, used to determine allocation of federal income tax among affiliates, and Services Agreement, used for allocation of operational expenses performed for affiliates by Molina.

Molina and its subsidiaries file a consolidated federal income tax return. Molina collects from, or refunds to, the subsidiaries the amount of taxes or benefits determined as if Molina and the subsidiaries filed separate returns. In 2008, MHW overpaid its federal income tax estimate to Molina due to the incorrect and inconsistent tax allocation methodology used by Molina. (See Instruction No. 4.)

## **MANAGEMENT AND CONTROL**

### **Ownership**

MHW has only one shareholder, Molina, which owns all 100 shares of outstanding stock. There have been no changes of ownership during the review years.

### **Board of Directors (BOD)**

Directors as of December 31, 2008:

Glen Bogner	Chairperson
Lynn Withrow	Director
Janice Nestler	Director
Karen Slean	Director
Fred Reidman	Director

### **Officers**

Officers as of December 31, 2008:

<u>Name</u>	<u>Title</u>
Glen Bogner	President
Mark Andrews	Secretary & Chief Legal Counsel
John Puente	Assistant Secretary & Legal Counsel
Jennifer Freeman	Treasurer & Chief Financial Officer
Laurel Lee	Chief Operating Officer
Ward Hurlburt	Chief Medical Officer

## **Committees**

The Bylaws provide for an Executive Committee and other standing committees such as Medical Management and Nominating Committee. The BOD may, by resolution adopted by a majority of the authorized number of directors, designate one or more committees, each consisting of two (2) or more directors. All committees met regularly, kept written records of their meetings, and made regular reports to the BOD.

## **Conflict of Interest**

The Company requires the annual completion of a conflict of interest statement by officers, directors, and key employees. Our review did not disclose any exceptions.

## **Fidelity Bond and Other Insurance**

MHW is a named insured on a financial institution fidelity bond insurance policy purchased by Molina. The aggregate amount of coverage does not meet the recommended guidelines of the NAIC to cover the exposure risk of the parent and its affiliates. (See Recommendation No. 2.)

## **Officers', Employees', and Agents' Welfare and Pension Plans**

The Company's employees participate in a parent-sponsored defined contribution plan. In addition, the Company's employees may participate in a deferred compensation plan. There is also an employee incentive plan that began in 2008.

## **CORPORATE RECORDS**

The corporate records were reviewed. No changes were made for the period under examination.

## **MORTALITY AND LOSS**

The OIC health actuary reviewed the Company's actuarial report, claims unpaid, and other claim liabilities as of December 31, 2008. The review included examining the Company's reserving philosophy and methodologies to determine the reasonableness of the claim liabilities; verifying that claim liabilities include provisions for all components noted in SSAP No. 55, paragraphs 7 and 8, and SSAP No. 54 paragraphs 12, 13, 18 and 19; reviewing historical paid claims and loss ratios; checking the consistency of the incurred-paid data from the Company's system with the figures reported in the 2008 NAIC Annual Statement; and estimating claims unpaid for the valuation date of December 31, 2008.

In the OIC Actuary's opinion, reserves were in compliance with statutory requirements, and, except for the findings as noted in Instruction Nos. 1 (g), 5, and 6, and Comment and Recommendation No. 3, the methods, assumptions, and methodologies used by the Company were appropriate.

### **REINSURANCE**

The Company is a party to two medical excess of loss reinsurance agreements for Medicare and Medicaid on a claims incurred basis. The Company's basic retention for Medicaid is \$1,000,000 and Medicare is \$200,000 with a limit of \$2,000,000 on both.

The reinsurance agreements were reviewed and found to comply with Washington State reinsurance statutes. The Company reported a healthcare receivable from DSHS as a reinsurance recoverable on its NAIC 2008 Annual Statement. (See Instruction No. 1(b).)

The Company has controls in place to monitor its reinsurance program including the financial condition of the reinsurers. In addition, MHW utilizes the services of a reinsurance intermediary to solicit, negotiate, and place reinsurance cessions on its behalf.

### **STATUTORY DEPOSITS**

The Company maintained its statutory deposit as of December 31, 2008 in the state of Washington with a fair value of \$151,987.

### **ACCOUNTING RECORDS AND INFORMATION SYSTEMS**

The Company maintains its accounting records on a Statutory Accounting Principles (SAP) accrual basis. The Company is audited annually by the certified public accounting firm of Ernst & Young, LLP. The Company received an unqualified opinion for all years under review. The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the planning and testing phase of the examination and no material exceptions were noted.

Management is sufficiently knowledgeable of the information system (IS) process. Systems development, acquisition, and maintenance controls were evaluated to gain assurance that appropriate internal controls are in place.

Operations and application controls were reviewed to determine the type of hardware installed; operating systems and proprietary software in use; back up and recovery facilities employed; and the internal controls exercised to maintain data security. Sufficient internal controls are in place and monitored by the Company.

The Company has a formal written disaster recovery plan for the restoration of the IS and an equally formal, written business continuity plan that addresses the continuation of all significant business activities, including financial functions, telecommunication services and data processing services, in the event of a disruption of normal business activities, as recommended by NAIC Guidelines.

### **SUBSEQUENT EVENTS**

There were no material events adversely affecting the Company between the examination date and the last day of our fieldwork.

### **FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS**

The Company remedied all prior examination instructions and implemented the recommendations.

### **FINANCIAL STATEMENTS**

Statement of Assets, Liabilities, Surplus, and Other Funds  
Statement of Income and Capital and Surplus Account  
Reconciliation of Surplus

**MOLINA HEALTHCARE OF WASHINGTON, INC.**  
**ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS**  
**AS OF DECEMBER 31, 2008**

<b>Assets</b>	<b><u>BALANCE PER COMPANY</u></b>	<b><u>EXAMINATION ADJUSTMENTS</u></b>	<b><u>BALANCE PER EXAMINATION</u></b>
Bonds	\$84,808,631	\$0	\$84,808,631
Cash and short-term investments	46,057,832		46,057,832
<b>Subtotal, cash and invested assets</b>	<b><u>\$130,866,463</u></b>	<b><u>0</u></b>	<b><u>\$130,866,463</u></b>
Investment income due and accrued	\$844,871		844,871
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	11,036,898		11,036,898
Current federal and foreign income tax recoverable	6,673,610		6,673,610
Net deferred tax asset	1,926,885		1,926,885
Electronic data processing equipment and software	30		30
Receivable from parent, subsidiaries and affiliates	397		397
Health care and other amounts receivable	244,107		244,107
Amount recoverable from reinsurers	1,329,639		1,329,639
<b>Total Assets</b>	<b><u>\$152,922,900</u></b>	<b><u>\$0</u></b>	<b><u>\$152,922,900</u></b>
<b>Liabilities, Surplus and other Funds</b>			
Claims unpaid	\$46,350,809	\$0	\$46,350,809
Unpaid claims adjustment expenses	1,804,128		1,804,128
Premiums received in advance	1,544,696		1,544,696
General expenses due or accrued	6,510,274		6,510,274
Amounts due to parent; subsidiaries and affiliates	450,972		450,972
Aggregate write-ins for other liabilities	1,641,472		1,641,472
<b>Total Liabilities</b>	<b><u>58,302,351</u></b>	<b><u>0</u></b>	<b><u>58,302,351</u></b>
Common capital stock	\$1,000,000		\$1,000,000
Gross paid in and contributed surplus	10,518,195		10,518,195
Unassigned funds (surplus)	83,102,354		83,102,354
<b>Surplus as regards policyholders</b>	<b><u>94,620,549</u></b>	<b><u>0</u></b>	<b><u>94,620,549</u></b>
<b>Total Liabilities, Surplus and other Funds</b>	<b><u>\$152,922,900</u></b>	<b><u>\$0</u></b>	<b><u>\$152,922,900</u></b>

**MOLINA HEALTHCARE OF WASHINGTON, INC.**  
**STATEMENT OF INCOME AND CAPITAL AND SURPLUS ACCOUNT**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

STATEMENT OF INCOME	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENT</u>	<u>BALANCE PER EXAMINATION</u>
<b>Net premium income</b>	\$708,485,067	\$0	\$708,485,067
Aggregate write-ins for other non-health revenues	825,252		825,252
<b>Total revenues</b>	<u>709,310,319</u>	<u>0</u>	<u>709,310,319</u>
Hospital/medical benefits	428,913,249		428,913,249
Other professional services	33,049,565		33,049,565
Emergency room and out-of-area	41,725,292		41,725,292
Prescription drugs	62,550,419		62,550,419
<b>Subtotal (hospital and medical)</b>	<u>566,238,525</u>	<u>0</u>	<u>566,238,525</u>
Net reinsurance recoveries	1,503,335	0	1,503,335
<b>Total hospital and medical</b>	<u>564,735,190</u>	<u>0</u>	<u>564,735,190</u>
Claims adjustment expenses	18,121,018		18,121,018
General administrative expenses	70,968,417		70,968,417
<b>Total underwriting deductions</b>	<u>653,824,625</u>	<u>0</u>	<u>653,824,625</u>
<b>Net underwriting gain or (loss)</b>	<u>55,485,694</u>	<u>0</u>	<u>55,485,694</u>
Net investment income earned	5,781,306	0	5,781,306
Net realized capital gains or (losses)	285,773		285,773
<b>Net investment gains or (losses)</b>	<u>6,067,079</u>	<u>0</u>	<u>6,067,079</u>
Aggregate write-ins for other income or expenses	0		0
<b>Net income (loss); after capital gains tax and before all other federal income taxes</b>	<u>61,552,773</u>	<u>0</u>	<u>61,552,773</u>
Federal and foreign income taxes incurred	21,155,543	0	21,155,543
<b>Net income (loss)</b>	<u><u>\$40,397,230</u></u>	<u><u>\$0</u></u>	<u><u>\$40,397,230</u></u>

**CAPITAL AND SURPLUS ACCOUNT**

<b>Surplus as regards policyholders, December 31 prior year</b>	<u>\$113,621,959</u>	<u>\$0</u>	<u>\$113,621,959</u>
<b>Gains and (Losses) in Surplus</b>			
Net income	40,397,230		40,397,230
Change in net unrealized capital gain/losses	0		0
Change in net deferred income tax	(152,543)		(152,543)
Change in nonadmitted assets	753,903		753,903
Dividends to stockholders	(60,000,000)		(60,000,000)
Change in surplus as regards policyholders	<u>(19,001,410)</u>	<u>0</u>	<u>(19,001,410)</u>
<b>Surplus as regards policyholders, December 31 current year</b>	<u><u>\$94,620,549</u></u>	<u><u>\$0</u></u>	<u><u>\$94,620,549</u></u>

**MOLINA HEALTHCARE OF WASHINGTON, INC.  
FIVE YEAR RECONCILIATION OF SURPLUS  
FOR THE YEARS ENDED DECEMBER 31**

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Capital and Surplus, December 31, prior year</b>	<b>\$113,621,959</b>	<b>\$95,245,069</b>	<b>\$71,049,041</b>	<b>\$59,347,218</b>	<b>\$48,536,666</b>
Net income (loss)	40,397,230	45,477,166	46,490,821	27,229,203	33,440,489
Change in net deferred income tax	(152,543)	4,864,595	(419,354)	0	(620,703)
Change in nonadmitted assets	753,903	(1,964,871)	624,561	1,472,620	(17,159,234)
Dividends to stockholders	(60,000,000)	(30,000,000)	(22,500,000)	(17,000,000)	(4,850,000)
Net change in capital and surplus	(19,001,410)	18,376,890	24,196,028	11,701,823	10,810,552
<b>Capital and Surplus, December 31, current year</b>	<b>\$94,620,549</b>	<b>\$113,621,959</b>	<b>\$95,245,069</b>	<b>\$71,049,041</b>	<b>\$59,347,218</b>

**NOTES TO THE FINANCIAL STATEMENTS**

**None**

## ACKNOWLEDGMENT

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Respectfully submitted,

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