

STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER



FINANCIAL EXAMINATION
OF
MOLINA HEALTHCARE OF WASHINGTON, INC.
SEATTLE, WASHINGTON

NAIC CODE 96270
December 31, 2012

Order No. 14-126
Molina Healthcare of Washington, Inc.
Exhibit A

SALUTATION

Seattle, Washington
May 7, 2014

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

Dear Commissioner Kreidler:

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

Molina Healthcare of Washington, Inc.
of
Seattle, Washington

hereinafter referred to as "MWA" or the "Company" at the location of its home office 21540 30th Drive SE, Suite 400, Bothell, WA 98021. This report is respectfully submitted showing the financial condition and related corporate matters of the Company as of December 31, 2012.

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, 2012.



Patrick H. McNaughton
Chief Examiner

6-30-14

Date

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SCOPE OF THE EXAMINATION

The examination of the Company was part of the Molina Healthcare, Inc. 2012 coordinated group examination. It included five regulated entities domiciled in four states. The Ohio Department of Insurance (ODI) assumed the responsibility of the coordinating state for the 2012 financial examination with Illinois, Texas, and Washington participating. Communication among the states led to a more efficient use of resources while reducing duplication of work. Coordinated group examinations not only provide information on each insurer individually, but also provide a structure for regulators to understand and evaluate risks of the holding company group as a whole.

This examination covers the period January 1, 2009 through December 31, 2012 and comprises a risk focused review of the books and records of the Company. The examination followed statutory requirements contained in the Washington Administrative 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 on May 7, 2014.

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 section of this report. In addition, the Company's 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 2012 NAIC FCEH which requires the examiners 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 the Company'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 2012 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 outlined in the NAIC Accounting Practices and Procedures Manual (AP&P).

The following summarizes the exceptions noted while performing this review:

1. Related Party Cost Allocations

In 2012, Molina Healthcare, Inc. (MHI), MWA's parent company, allocated costs to the Company and to other affiliates using MHI's total budgeted costs and total budgeted premiums, and the budgeted premiums of the entities receiving the allocation. The allocations were not true-up to actual costs or premiums. Using budgeted amounts without a true-up to actual amounts is not in compliance with RCW 48.31C.050 because budgeted amounts have not actually been incurred.

In addition, costs were not adequately identified so that they could be charged to the entity to which they belonged. Several examples are:

- a. Legal costs relating to a lawsuit involving only the Company were allocated to other affiliates.
- b. Start up and development costs belonging to a newly formed affiliate, Molina Healthcare of Illinois, Inc. (MIL), which did not have premium income, were allocated to affiliates that had premium income.
- c. Costs related to setting up products on either the Affordable Care Act (ACA) federal health care exchange (marketplace) or similar state-based exchanges were allocated among all affiliates that had premium income. Some affiliates did not have products on either the federal or state-based exchange and should not have received an allocation for these costs. In addition, costs could have varied depending on whether the product was on the state versus federal exchange.
- d. Costs of other affiliates relating to the preparation for entering the Medicare dual eligible market were allocated among all affiliates that had premium income, including MWA, which did not participate in the Medicare dual eligible preparations.

RCW 48.31C.050 and SSAP No. 70(8) require intercompany allocations to be fair and reasonable and require shared expenses to be apportioned to the entities to which they belong. RCW 48.43.097 requires the Company to file its NAIC Annual Statement in accordance with the AP&P. The Company did not provide support for the true amount of expenses that should have been allocated to MWA.

The Company is instructed to comply with RCW 48.31C.050, RCW 48.43.097, and SSAP No. 70 by adequately identifying costs and allocating expenses to the entity or entities to which they belong.

2. Holding Company Filings

The Company entered into the Services Agreement (SA) with its parent, MHI, effective June 1, 2001. The Company failed to file the 2009-1 Amendment to Services Agreement on a Form D prior to entering into the transaction. This amendment stated an effective date of January 1, 2009. RCW 48.31C.050(2)(d) requires all management agreements, service contracts, and cost-sharing arrangements between the health carrier and a person in its health carrier holding company system to be filed with the OIC prior to the effective date.

In addition, the Company failed to disclose the 2005-1 Amendment to Services Agreement, which was effective April 20, 2005, and the 2009-1 Amendment to Services Agreement on its 2009 and 2010 Form B's filed with the OIC. RCW 48.31C.040(2)(c)(v) requires the Company to file (disclose) all management agreements, service contracts, and cost sharing arrangements on a Form B annually, and WAC 284-18A-920, Item 5, requires the Form B to include the date of the transaction or agreement and the date the transaction or agreement was approved by the commissioner if such an approval was required. The 2005-1 Amendment to Services Agreement expanded services to the Medicare program and the 2009-1 Amendment to Services Agreement specifies that MWA maintains ultimate responsibility for adherence

to or otherwise fully complying with all terms and conditions of its contract with the Centers for Medicare and Medicaid Services (CMS).

The Company is instructed to comply with RCW 48.31C.050(2)(d) by filing all required management agreements, service contracts, and cost-sharing arrangements with the OIC on a Form D prior to entering into them, and to comply with RCW 48.31C.040(2)(c)(v) and WAC 284-18A-920 by disclosing all required agreements, contracts, dates of the agreements and contracts, and dates of approval of the agreements and contracts on its Form B filings.

COMMENTS AND RECOMMENDATIONS

1. Corporate Governance

The Chief Information Officer (CIO) reports directly to the Chief Financial Officer (CFO). The current reporting structure of the Company does not conform to the Control Objectives for Information and Related Technology (COBIT) framework standards which recommend that the CIO report to either the Chief Operating Officer (COO) or the Chief Executive Officer (CEO).

It is recommended that the CIO reports directly to the COO or CEO as specified in the COBIT standards.

2. Enterprise Risk Management Program (ERM)

The Company has not fully developed an enterprise risk management program that is in compliance with the Own Risk and Solvency Assessment (ORSA). There currently is no Chief Risk Officer (CRO). The ERM function should have a dedicated resource to comply with ORSA. In addition, the progress on mitigating the risks is not formally tracked and documented. An effective ERM program assigns risks to appropriate persons in upper management who are responsible for developing risk mitigation strategies and for tracking the implementation of the mitigation plan. The progress should be documented.

It is recommended that the Company place a dedicated resource in charge of the ERM to comply with ORSA, and that the progress on the risk mitigation is tracked and documented.

3. Succession Planning

Succession planning was not well documented or formalized for key positions at MHI and at MWA. Subsequent to the exam date, MHI started developing a succession plan. Currently, there is a Board of Director (BOD) approved successor for each of the five MHI executives. The succession planning for the MHI vice presidents and for the executives of MWA is in the early stages and is anticipated to be completed in 2015.

It is recommended that MHI continue to develop and maintain a succession plan for its MHI executives, vice presidents, and for the executives of MWA.

COMPANY PROFILE

Company History

The Company was incorporated under the laws of the state of Washington on August 27, 1984, as Americare of the Puget Sound, Inc. On March 11, 1987, it became Foundation Health Plan, Inc., a

wholly-owned subsidiary of Foundation Health Corporation. The Company was purchased on April 21, 1989 by Qual-Med, Inc., a Colorado Corporation. In 1990, the name of the Company was changed to Qual-Med Washington Health Plan, Inc. (QMWA). On January 28, 1994, Health Net and QMWA merged to become Health Systems International, Inc. (HSI). On April 1, 1997, HSI and the Foundation Health Corporation merged to become Foundation Health Systems, Inc. (FHS). QMWA was a wholly-owned subsidiary of FHS. In 2000, the Company was purchased by MHI. MHI is domiciled in Delaware with headquarters in Long Beach, California. QMWA's name was changed to Molina Healthcare of Washington, Inc. The Company was registered as a Health Maintenance Organization (HMO) by the OIC effective June 3, 1985.

Capitalization

The Company met the minimum capital requirements of RCW 48.44.037 by having \$113,774,075 net worth (capital and surplus) as of December 31, 2012.

Dividends

The Company paid extraordinary dividends to MHI of \$10.0 million in 2012, \$20.0 million in 2011, \$16.3 million in 2010, and \$37.5 million in 2009. All of the extraordinary dividends were approved by the OIC.

Territory and Plan of Operation

The Company is registered in the state of Washington as a Health Maintenance Organization (HMO). MWA is a wholly-owned subsidiary of MHI, a multi-state managed care organization. The Company arranges for the delivery of comprehensive health care services to persons eligible for Medicaid, Medicare, and other government-sponsored programs for low-income families and individuals in the state of Washington. It contracts with independent physician associations, hospitals, and other providers to provide medical services to its members. MWA provides healthcare coverage for patients in government programs in 37 of 39 counties of Washington State. A significant portion of the Company's customer base is concentrated in King, Pierce, Spokane, and Snohomish counties. In 2012, 98 percent of its business (411,000 members) came from Medicaid which includes the State Children's Health Insurance Plan and two percent from Medicare (7,000 members).

The Company contracts with the Washington State Health Care Authority (HCA) 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 HCA to provide care for members enrolled through the Basic Health (BH) and the Basic Health Plus (BH+) programs.

MWA serves Medicare members under its contract with CMS. It provides care for members enrolled in the Medicare Advantage (Molina Advantage) program.

Growth of Company

The following reflects the growth of the Company as reported in its filed NAIC Annual Statements for the four year period under examination:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital & Surplus</u>	
2012	\$294,024,335	\$180,250,260	\$113,774,075	
2011	157,132,230	57,588,531	99,543,699	
2010	141,114,804	48,951,733	92,163,071	
2009	124,070,212	43,079,123	80,991,089	

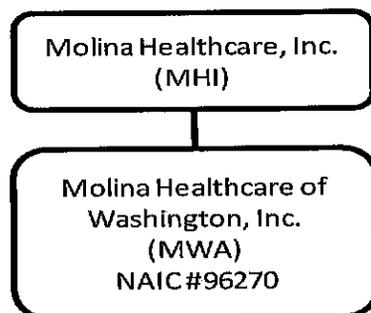
<u>Year</u>	<u>Total Revenue</u>	<u>Net Underwriting Gain (Loss)</u>	<u>Net Investment Gain (Loss)</u>	<u>Net Income</u>
2012	\$1,050,142,258	\$38,040,973	\$1,142,323	\$19,277,266
2011	834,782,480	39,187,553	1,141,786	25,911,224
2010	757,619,525	40,036,928	1,112,560	26,628,384
2009	725,042,318	31,101,184	2,247,938	22,415,671

Affiliated Companies

MWA is a wholly-owned subsidiary of MHI, a Delaware Corporation. MHI has 100 percent ownership in several other health plans that hold certificates of authority to do business as health maintenance organizations located in the states of California, Florida, Illinois, Michigan, Missouri, New Mexico, Ohio, Texas, Utah, Virginia, Wisconsin, and the District of Columbia.

Organizational Chart

The following is an abbreviated organization chart as of December 31, 2012. It only includes the parent company due to the direct reporting structure with MHI, and because MHI is the only entity with which MWA has intercompany agreements.



Intercompany Agreements

As of December 31, 2012, the Company had the following intercompany agreements in force:

Services Agreement (SA)

The SA between the Company and MHI became effective on June 1, 2001. In exchange for payments from MWA, MHI provides consultation and assistance services such as claims processing, human resources, information systems, network support, legal, accounting, and financial services. A Business Associate Addendum was added to the SA effective April 24, 2004 to address privacy of information as required by the Health Insurance Portability and Accountability Act of 1996 (HIPAA). An

Addendum to The Business Associate Addendum was added to the SA effective April 30, 2005 to address new security standards for electronic protected health information, as required by HIPAA. The 2005-1 Amendment to Services Agreement was added to the SA effective April 21, 2005, which expanded the services in the SA to include the Medicare program. The 2009-1 Amendment to Services Agreement was added to the SA effective January 1, 2009, which specified that MWA maintains ultimate responsibility for adherence to or otherwise fully complying with all terms and conditions of its contract with CMS. The 2009-1 Amendment to Services Agreement was not properly filed on a Form D with the OIC, and the 2005-1 Amendment to Services Agreement and the 2009-1 Amendment to Services Agreement were not disclosed on the 2009 or 2010 Form B's filed with the OIC. (See Instruction No. 2.)

Federal Tax Sharing Agreement (FTSA)

The FTSA between the Company and MHI became effective on January 1, 2004. The parties agreed to file consolidated federal tax returns. MWA's share of tax is computed as if it was filed on a stand-alone basis. The 2011-1 Amendment to Federal Tax Sharing Agreement became effective January 1, 2011. It required the settling of intercompany tax balances within 90 days. The FTSA and amendment were properly filed with the OIC.

MANAGEMENT AND CONTROL

Ownership

MWA has only one shareholder, MHI, which owns all 100 shares of the no par value stock that is outstanding. There have been no changes of ownership during the years under review.

The Bylaws, effective June 16, 2000, provide for an Executive Committee and other standing committees such as Medical Management and Nominating Committees. The BOD may, by resolution adopted by a majority of the authorized number of directors, designate one or more committees, each consisting of two or more directors. Committees meet regularly, keep written records of their meetings, and make regular reports to the BOD.

Board of Directors (BOD)

The following individuals were directors as of December 31, 2012:

Glen Bogner	Chairman
Mary Syiek	
Carl Zapora	

Officers

The following individuals were officers as of December 31, 2012:

Glen Bogner	President
Jeffrey Barlow	Secretary
Bela Biro	Treasurer, Vice President

Conflict of Interest

MHI's policy requires that upon hire and annually, thereafter, all employees complete and submit a conflict of interest disclosure form. In addition, as conflicts of interest arise, they must be disclosed to the employee's immediate supervisor or to the human resources department. No exceptions were noted.

Fidelity Bond

The Company is a named insured on a fidelity bond with \$10,000,000 of coverage and a \$250,000 deductible. The coverage meets the NAIC recommended minimum coverage.

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

MWA's employees participate in a defined contribution plan under section 401(k) of the Internal Revenue Code. It is sponsored by MHI. The plan covers all eligible full-time salaried and clerical employees. Eligible employees are allowed to contribute up to the maximum allowed by law. The Company matches up to the first four percent of compensation contributed by the employees. The Company has no legal obligation to provide benefits under the plan. The Company's expense recognized in connection with the 401(k) plan was \$394,252 and \$449,766 for the years ended December 31, 2012 and 2011, respectively.

CORPORATE RECORDS

The Articles of Incorporation, Bylaws, Certificate of Registration, and minutes of the BOD and its committees were reviewed for the period under examination. All BOD meetings were conducted with a quorum present.

ACTUARIAL REVIEW

We relied on the review of reserves completed by the Ohio Department of Insurance (ODI). The ODI actuary concluded that the reserving methodology was reasonable and that the provision for claim reserves was sufficient as of December 31, 2012.

REINSURANCE

The Company has medical claims reinsurance with Reinsurance Group of America, Inc. (RGA). The policy has a deductible of \$1,000,000 for Medicaid and \$500,000 for Medicare, and pays 90 percent of losses in excess of the deductible. The annual limit for Medicaid is \$2,000,000 per member per year. The annual limit for Medicare is \$2,000,000 per member per year. Reinsurance recoveries were \$712,426 in 2012 and \$0 in 2011. Reinsurance expense was \$561,000 and \$685,000 in 2012 and 2011, respectively. The Company is liable for all benefits payable on a direct basis, whether or not claims are recovered under the reinsurance coverage.

INDEMNITY DEPOSITS

The Company maintained the following statutory deposit as of December 31, 2012:

<u>State</u>	<u>Type</u>	<u>Book Value</u>	<u>Fair Value</u>
Washington	Treasury Bill	\$150,897	\$150,900

ACCOUNTING RECORDS AND INFORMATION SYSTEM

The Company maintains its accounting records on a Generally Accepted Accounting Principles (GAAP) accrual basis of accounting and adjusts to Statutory Accounting Practices (SAP) basis for NAIC Annual Statement reporting. 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. (See Comments and Recommendations Nos. 1 and 2.)

The Company's Information Technology (IT) environment was reviewed during the planning and testing phase of the examination, focusing on the following Control Objectives for Information and Related Technology (COBIT) Framework domains:

- Plan and Organize
- Acquire and Implement
- Deliver and Support
- Monitor and Evaluate

The IT systems and controls were evaluated to gain an understanding of general IT control risks and assess the effectiveness of these controls. Appropriate mitigating and internal controls have been implemented to reduce residual risk to appropriate levels with the exception that the CIO reports directly to the CFO. The reporting structure does not conform to the COBIT framework standards which recommend that the CIO report to either the COO or the CEO. (See Comment and Recommendation No. 1.)

The Company has an effective Business Continuity Plan and Disaster Recovery Plan, which have been tested on a regular basis and include the availability of an alternate site.

SUBSEQUENT EVENTS

1. On January 1, 2013, Bela Biro replaced Glen Bogner as President of MWA. On December 16, 2013, Mr. Biro left the Company. Ann Koontz assumed the presidency in the interim until Peter Adler became the President on March 17, 2014.
2. In 2012, MWA was a party to a lawsuit against the HCA regarding HCA's method of assigning new Medicaid members to healthcare companies. A new contract between MWA and HCA became effective on January 1, 2014 and eliminated the disagreement going forward. However, the Company is currently seeking damages against the HCA.
3. In 2014, the Company received two notices from HCA regarding alleged premium overpayments as follows:
 - a) On March 25, 2014, HCA communicated to the Company that the HCA had overpaid the Company \$14,359,621 for non-eligible Washington Community Options Program Entry System (COPES) members.
 - b) On April 7, 2014, HCA communicated to the Company that it had overpaid the Company \$5,817,604 for psychotropic drug claims that HCA paid.

The overpayments asserted by the HCA date back to July 1, 2012, the start date of the contract, and were incorporated into the capitation rates paid to MWA. The Company is disputing that any overpayments have occurred, and has filed, with a full reservation of rights, notices of dispute with respect to both letters from the HCA.

FINANCIAL STATEMENTS

The following financial statements show the financial condition of MWA as of December 31, 2012:

Assets, Liabilities, Capital and Surplus
Statement of Revenue and Expenses
Four Year Reconciliation of Surplus

Molina Healthcare of Washington, Inc.
Assets, Liabilities, Capital and Surplus
December 31, 2012

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>
ASSETS			
Bonds	\$96,759,964	\$0	\$96,759,964
Cash	173,413,587		173,413,587
Investment income due and accrued	651,194		651,194
Uncollected premium and agents' balances in the course of collection	13,682,318		13,682,318
Amounts recoverable from reinsurers	712,426		712,426
Amounts receivable relating to uninsured plans	22,000		22,000
Net deferred tax asset	8,217,060		8,217,060
Health care and other amounts receivable	565,786		565,786
Total assets	<u>\$294,024,335</u>	<u>\$0</u>	<u>\$294,024,335</u>
LIABILITIES, CAPITAL AND SURPLUS			
Claims unpaid	\$77,940,733	\$0	\$77,940,733
Accrued medical incentive pool and bonus amounts	2,318,564		2,318,564
Unpaid claim adjustment expenses	1,241,632		1,241,632
Aggregate health policy reserves	1,407,000		1,407,000
Premiums received in advance	83,476,434		83,476,434
General expenses due or accrued	10,153,042		10,153,042
Federal and foreign income taxes payable and interest thereon	1,037,004		1,037,004
Amounts due to parent, subsidiaries and affiliates	660,851		660,851
Liability for amounts held under uninsured plans	2,015,000		2,015,000
Total liabilities	<u>180,250,260</u>	<u>0</u>	<u>180,250,260</u>
Common capital stock	1,000,000		1,000,000
Gross paid in and contributed surplus	10,518,195		10,518,195
Unassigned fund (surplus)	102,255,880		102,255,880
Total capital and surplus	<u>113,774,075</u>	<u>0</u>	<u>113,774,075</u>
Total liabilities, capital and surplus	<u>\$294,024,335</u>	<u>\$0</u>	<u>\$294,024,335</u>

Molina Healthcare of Washington, Inc.
Statement of Revenue and Expenses
For the Year Ended December 31, 2012

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>
Member months	4,599,718	0	4,599,718
Net premium income	\$1,050,142,258	\$0	\$1,050,142,258
Total revenues	<u>1,050,142,258</u>	<u>0</u>	<u>1,050,142,258</u>
Hospital and Medical:			
Hospital/medical benefits	614,955,550		614,955,550
Other professional services	63,506,499		63,506,499
Emergency room and out-of-area	69,765,112		69,765,112
Prescription drugs	136,719,883		136,719,883
Incentive pool, withhold adjustments and bonus amounts	<u>2,686,811</u>		<u>2,686,811</u>
Subtotal	887,633,855	0	887,633,855
Less:			
Net reinsurance recoveries	712,426	0	712,426
Total hospital and medical	886,921,429	0	886,921,429
Claims adjustment expenses	21,269,035		21,269,035
General administrative expenses	102,651,210		102,651,210
Increase in reserves for life & accident & health contracts	<u>1,259,611</u>		<u>1,259,611</u>
Total underwriting deductions	<u>1,012,101,285</u>	<u>0</u>	<u>1,012,101,285</u>
Net underwriting gain or (loss)	38,040,973	0	38,040,973
Net investment income earned	1,031,055		1,031,055
Net realized capital gains (losses) less capital gains tax	<u>111,268</u>		<u>111,268</u>
Net investment gains (losses)	<u>1,142,323</u>	<u>0</u>	<u>1,142,323</u>
Net income or (loss) after capital gains tax and before all other federal income taxes	39,183,296	0	39,183,296
Federal and foreign income taxes incurred	19,906,030		19,906,030
Net income or (loss)	<u>\$19,277,266</u>	<u>\$0</u>	<u>\$19,277,266</u>
CAPITAL AND SURPLUS ACCOUNT			
Capital and surplus prior reporting year	<u>\$99,543,699</u>	<u>\$0</u>	<u>\$99,543,699</u>
Net income or (loss)	19,277,266		19,277,266
Change in net unrealized capital gains (losses) less capital gains tax	(112,000)		(112,000)
Change in net deferred income tax	6,777,815		6,777,815
Change in nonadmitted assets	(852,568)		(852,568)
Cummulative effect of changes in accounting principles	139,895		139,895
Dividends to stockholders	<u>(11,000,032)</u>		<u>(11,000,032)</u>
Net change in capital & surplus	<u>14,230,376</u>	<u>0</u>	<u>14,230,376</u>
Capital and surplus end of reporting year	<u>\$113,774,075</u>	<u>\$0</u>	<u>\$113,774,075</u>

**Molina Healthcare of Washington, Inc.
Four Year Reconciliation of Surplus
For the Years Ended December 31,**

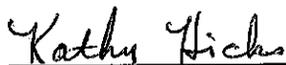
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Capital and surplus prior reporting year	\$99,543,699	\$92,163,071	\$80,991,089	\$94,620,549
Net Income or (loss)	19,277,266	25,911,224	26,628,384	22,415,671
Change in net unrealized capital gains (losses) less capital gains tax	(112,000)	0	0	0
Change in net deferred income tax	6,777,815	(369,288)	(371,430)	(1,129,669)
Change in nonadmitted assets	(852,568)	1,838,692	1,215,028	2,584,538
Cummulative effect of changes in accounting principles	139,895	0	0	0
Dividends to stockholders	(11,000,032)	(20,000,000)	(16,300,000)	(37,500,000)
Net change in capital and surplus	<u>14,230,376</u>	<u>7,380,628</u>	<u>11,171,982</u>	<u>(13,629,460)</u>
Capital and surplus end of reporting year	<u>\$113,774,075</u>	<u>\$99,543,699</u>	<u>\$92,163,071</u>	<u>\$80,991,089</u>

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of Molina Healthcare of Washington, Inc., and its affiliates during the course of this examination.

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Respectfully submitted,



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