

Report of Examination of

Molina Healthcare of Ohio, Inc.
Columbus, Ohio

As of December 31, 2011

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Columbus, Ohio
March 1, 2013

Honorable Mary Taylor
Lt. Governor/Director
State of Ohio
Department of Insurance
50 West Town Street
3rd Floor – Suite 300
Columbus, Ohio 43215

Dear Lt. Governor/Director:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

Molina Healthcare of Ohio, Inc.

an Ohio domiciled, health insuring corporation, hereinafter referred to as the “Plan.”

Scope of Examination

The Department last examined the Plan as of December 31, 2006. The Department’s current examination covers the intervening period through December 31, 2011.

The Department conducted the examination in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that the Department plan and perform the examination to evaluate the Plan’s financial condition and identify prospective risks including corporate governance, identify and assess inherent risks and evaluate 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 Statements of Statutory Accounting Principles (“SSAPs”) and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Plan were considered in accordance with the risk-focused examination process.

For all years under examination, the Certified Public Accounting firm of Ernst & Young LLP provided an unqualified opinion on the Plan’s financial statements based on Statutory Accounting Principles. The audited financial reports were reviewed during the examination.

Management and Control

Board of Directors

Management of the Plan is vested in its Board of Directors, which was comprised of the following members as of the examination date:

Name	Principal Occupation
Amy Schultz Clubbs	President, Molina Healthcare of Ohio, Inc.
James D. Forshee, M.D.	Vice President, Medical Affairs and Chief Medical Officer, Molina Healthcare of Michigan, Inc.
Teri D. Laurenstein	Vice President, Provider Network Management and Operations, Molina Healthcare of California, Inc.

Officers

As of the examination date, the following officers were serving in the designated position:

Name	Title
Amy Schultz Clubbs	President
Benjamin S. Orris	Vice President and Treasurer
Jeffrey D. Barlow	Secretary

Insurance Holding Company System

The Plan is a member of an insurance holding company system as defined in ORC Section 3901.32. The Plan is a wholly-owned subsidiary of Molina Healthcare, Inc. ("Molina"), a Delaware corporation. Molina is the ultimate controlling person in the holding company system and its common stock is publicly traded on the NYSE.

Territory and Plan of Operations

Molina operates health plans in nine states through its Health Maintenance Organization (“HMO”) subsidiaries, serving approximately 1.8 million members eligible for Medicaid, Medicare, and other government-sponsored health care programs for low-income families and individuals.

The Plan’s Medicaid service area includes the Central, South East, South West and West Central Regions in Ohio serving members eligible for Ohio Medicaid benefits through the Covered Families and Children program or the Aged, Blind or Disabled program. The Plan’s Medicare service area includes Butler, Clark, Clermont, Delaware, Franklin, Greene, Hamilton, Madison, Miami, Montgomery, Morrow, Pickaway, Preble, Union and Warren Counties in Ohio serving eligible in the Plan’s Medicare Options and Medicare Special Needs Plan.

The Plan entered into a management agreement with Molina to provide certain management, administrative services, claims processing services, utilization review, payroll services and the majority of the Plan’s administrative functions. During 2011, the Plan paid Molina \$90 million for services provided under the management agreement.

Reinsurance

The Plan maintains reinsurance with a deductible of \$500,000 for Medicaid and \$300,000 for Medicare. The reinsurer pays 90% of losses in excess of the deductible. The annual limits for both Medicaid and Medicare are \$2 million per member per year with a maximum payable amount of \$2 million per member per lifetime.

Significant Operating Results

The Plan reported the following net underwriting results, reported in millions, during the examination period:

	2011	2010	2009	2008	2007
Total revenue	<u>\$1,000.4</u>	<u>\$ 857.9</u>	<u>\$ 801.8</u>	<u>\$ 601.5</u>	<u>\$ 434.1</u>
Medical / hospital expenses	763.7	664.4	676.3	539.1	386.9
Claims adjustment expenses	22.8	21.6	21.9	14.2	9.1
Administrative expenses	<u>145.4</u>	<u>121.8</u>	<u>99.2</u>	<u>67.0</u>	<u>47.8</u>
Total underwriting deductions	<u>931.9</u>	<u>807.8</u>	<u>797.4</u>	<u>620.3</u>	<u>443.8</u>
Net underwriting gain (loss)	<u>\$ 68.5</u>	<u>\$ 50.1</u>	<u>\$ 4.4</u>	<u>\$ (18.8)</u>	<u>\$ (9.7)</u>

Financial Statements

The financial condition and the results of its operations for the period under examination as reported and filed by the Plan with the Department and audited by the Plan's external auditors, are reflected in the following:

Statement of Assets, Liabilities, Capital and Surplus

Statement of Revenue and Expenses

Statement of Changes in the Capital and Surplus Account

**Statement of Assets, Liabilities, Capital and Surplus
December 31, 2011**

Assets

Bonds	\$ 64,626,405
Cash, cash equivalents, and short term investments	<u>120,615,257</u>
Subtotal, cash and invested assets	185,241,662
Investment income due and accrued	730,091
Uncollected premiums in course of collection	11,390,152
Accrued retrospective premiums	2,350
Amounts receivable relating to uninsured plans	70,650
Net deferred tax asset	1,203,705
Electronic data processing equipment	6,615
Healthcare receivables	15,966,675
Miscellaneous assets	<u>7,424</u>
Total Assets	<u>\$ 214,619,324</u>

Liabilities, Capital and Surplus

Liabilities:

Claims unpaid	\$ 73,485,008
Unpaid claims adjustment expenses	981,265
General expenses due or accrued	20,362,696
Current federal income taxes payable	357,436
Amounts due to affiliates	288,671
Amounts due to state	<u>3,378,324</u>
Total liabilities	<u>98,853,400</u>

Capital and Surplus:

Common capital stock	1,500
Gross paid in and contributed surplus	53,888,500
Unassigned funds	<u>61,875,924</u>
Total capital and surplus	<u>115,765,924</u>
Total liabilities, capital and surplus	<u>\$ 214,619,324</u>

**Statement of Revenue and Expenses
As of December 31, 2011**

Revenue:

Net premium income	\$ 998,772,343
Performance revenue	<u>1,682,964</u>
Total revenue	<u>1,000,455,307</u>

Hospital and Medical Expenses:

Hospital / medical benefits	531,456,027
Other professional services	80,006,577
Emergency room and out of area	96,564,667
Prescription drugs	53,574,204
Transportation costs	3,941,892
Less net reinsurance recoveries	<u>(1,811,341)</u>
Total medical and hospital expenses	763,732,026

Claims adjustment expenses	22,781,732
General administrative expenses	<u>145,466,426</u>
Total underwriting deductions	<u>931,980,184</u>

Net underwriting gain	68,475,123
Net investment gains	<u>1,192,396</u>
Net income before federal income taxes	69,667,519
Federal income taxes incurred	<u>24,324,454</u>
Net income	<u>\$ 45,343,065</u>

Statement of Changes in the Capital and Surplus Account
(in thousands)

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Capital and surplus, prior year-end	\$ 98,939	\$ 73,596	\$ 59,436	\$ 51,802	\$ 21,067
Net income (loss)	45,343	37,922	(2,001)	(10,351)	(4,486)
Change in net unrealized capital gains (losses)	110	(110)	0	0	0
Change in net deferred income tax	(71)	(5,128)	5,553	263	253
Change in nonadmitted assets	445	659	408	(628)	(532)
Surplus adjustments	0	(8,000)	10,200	18,350	35,500
Dividends to stockholder	<u>(29,000)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net change in capital and surplus	<u>16,827</u>	<u>25,343</u>	<u>14,160</u>	<u>7,634</u>	<u>30,735</u>
Capital and surplus, current year-end	<u>\$ 115,766</u>	<u>\$ 98,939</u>	<u>\$ 73,596</u>	<u>\$ 59,436</u>	<u>\$ 51,802</u>

Notes to Financial Statements

Investments

The Plan's investments were in compliance with ORC Section 3925.08 and valued in accordance with the relevant SSAPs and the NAIC Securities Valuation Office.

Unpaid Claims

The Plan's Board of Directors appointed Brian Goebel, FSA, MAAA, Molina's Chief Actuary, to render the Plan's Statement of Actuarial Opinion ("Opinion"). The Opinions for each year end during the examination period were unqualified.

Daniel Moore, ASA MAAA, the Department's Health Actuary, reviewed the Opinion and performed other procedures as considered necessary to evaluate the unpaid claims. Mr. Moore concluded the Plan's carried reserves fall within a reasonable range of reserve estimates at December 31, 2011.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Plan at December 31, 2011, and is summarized as follows:

Total Assets	<u>\$ 214,619,324</u>
Liabilities	98,853,400
Capital and Surplus	<u>115,765,924</u>
Total Liabilities, Capital and Surplus	<u>\$ 214,619,324</u>

Subsequent Events

In June 2012, the Plan was recommended to be awarded a Medicaid managed care provider agreement for coverage of the newly designated Central/Southeast, Northeast, and West regions. These three regions together represent the entire state of Ohio.

In August 2012, the Plan was chosen to participate in the Southwest, West Central, and Central markets under the Ohio Integrated Care Delivery System ("ICDS"). The Ohio ICDS is intended to improve care coordination for individuals enrolled in both Medicaid and Medicare. The selection of the Plan was made by the Ohio Department of Jobs and Family Services ("ODJFS") pursuant to the request for applications for qualified health plans to serve in the ICDS issued in April 2012. The commencement of the ICDS is subject to the readiness review of the selected health plans, and the execution of three-way provider agreements between the health plans, ODJFS, and the Centers for Medicare and Medicaid Services ("CMS"). Implementation of the ICDS is expected in the fall of 2013.

Acknowledgement

Appreciation is expressed for the assistance extended by the officers and employees of Molina and its subsidiaries during the course of this examination.

In addition to the undersigned, Daniel Moore, ASA and Zachary Wheatley, CPA, of the Department, participated in this examination.

Respectfully,



Jeffrey K. Ebert, CFE
Assistant Chief Examiner
Office of Risk Assessment
Ohio Department of Insurance

Verification

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2011.

Jeffrey K. Ebert 3/8/13
Assistant Chief Examiner Date

State of Ohio
County of Franklin

Personally appeared before me the above named Jeffrey K. Ebert personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 8 day of March, 2013.

Elizabeth Chase
(Notary)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2017
My Commission Expires