

**Report on Examination**  
**of**  
**Molina Healthcare of Florida, Inc.**  
**Doral, Florida**  
**as of**  
**December 31, 2015**



**FLORIDA OFFICE OF  
INSURANCE REGULATION**

David Altmaier, Commissioner  
Florida Office of Insurance Regulation  
Tallahassee, Florida

Dear Sir:

In accordance with Section 641.27, Florida Statutes, and the *Financial Condition Examiners Handbook* of the National Association of Insurance Commissioners, we have completed a financial condition examination of Molina Healthcare of Florida, Inc. as of December 31, 2015. Our report on the examination follows.

Florida Office of Insurance Regulation  
January 13, 2017

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## SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2015 of Molina Healthcare of Florida, Inc. (the "Company"), a Florida health maintenance organization (HMO). The examination covered the period of January 1, 2014 through December 31, 2015 and took place in Tallahassee, Florida and the Company's Doral, Florida office. The last financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office") was as of December 31, 2013.

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. The Handbook required that we plan and perform our examination to evaluate the financial condition and identify current and prospective risks of the Company. It required that we do so 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. Our examination included assessing the principles used and significant estimates made by management. It also included evaluating overall financial statement presentation and management's compliance with statutory accounting principles and annual statement instructions when applicable to domestic state regulations. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

This examination report includes significant findings of fact, as mentioned in Section 624.319, Florida Statute (F.S.) and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g. subjective conclusions, proprietary information, etc.), are not included within the examination report but were separately communicated to other regulators and/or the Company.

## **COMPANY HISTORY**

The Company was incorporated in Florida on May 9, 2007 and licensed by the Office as an HMO on March 4, 2008. It was authorized by the State of Florida to operate as an HMO in accordance with Part I of Chapter 641, (F.S.).

### Mergers and Acquisitions

On December 15, 2010, the Company acquired 100% of the voting equity interest in Florida NetPASS, L.L.C. In addition, the Company acquired certain Neighborly Care Network, Inc. assets for \$3.4 million on July 1, 2013. The assets were related to the statewide Medicaid managed care long-term program of Neighborly Care Network, Inc.

On August 1, 2015, the Company closed on its acquisition of the Medicaid contracts, and certain assets related to the operation of the Medicaid business, of Preferred Medical Plan, Inc.

On November 1, 2015, the Company closed on its acquisition of the Medicaid contracts, and certain assets related to operation of the Medicaid business, of Integral Health Plan, Inc.

## **CORPORATE RECORDS**

We reviewed the minutes of the Company's stockholder and board of directors meetings. The Board's approval of Company transactions, including the authorization of its investments as required by Section 641.35(7), Florida Statutes, was recorded in the minutes of its meetings.

### Dividends and Capital Contributions

The company received capital contributions of \$59.6 million in 2014 and \$224,230,962 in the year ended December 31, 2015, principally to provide funding to meet mandated net worth

requirements. Molina has agreed to provide additional future funding to the Company, if necessary, to ensure the Company's compliance with minimum net worth requirements.

The Company did not declare any dividends during the period examined.

### MANAGEMENT AND CONTROL

The Company was wholly owned by Molina Healthcare Inc., a multi-state managed care organization headquartered in Long Beach, California. The common stock of Molina Healthcare Inc. was traded on the New York Stock Exchange.

The Company's senior officers and directors were:

#### Senior Officers

<b>Name</b>	<b>Title</b>
Martitza E. Borrajero	President
Adriana J. Day	CFO/VP Finance & Analytics
Jeffrey D. Barlow	Secretary

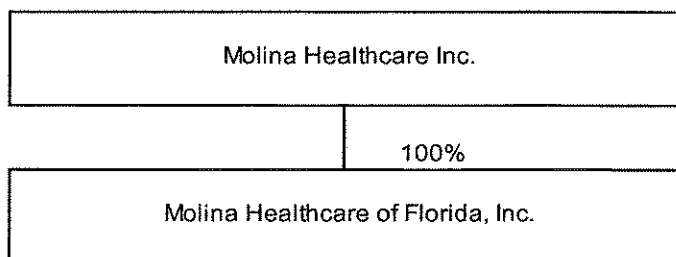
#### Board of Directors

<b>Name</b>	<b>Location</b>
Thomas Robert Lindquist	Mt. Pleasant, SC
David Jeffrey Pollack	Davie, FL
Michelle Ann Bentzien Purrington	San Antonio, TX

The Company was a member of an insurance holding company system. Its latest holding company registration statement was filed with the State of Florida as required by Section 628.801, F.S., and Rule 69O-143.046, Florida Administrative Code (F.A.C.), on February 26, 2016.

An abbreviated organizational chart reflecting the holding company system is shown below.

**Molina Healthcare Inc.  
Abbreviated Organizational Chart  
December 31, 2015**



The following agreement(s) were in effect between the Company and its affiliates.

The Company had entered into a primary care services agreement with Joseph M. Molina Professional Corporation (JMMPC), under which the Company paid \$688,885 and \$362,930 to JMMPC for the years ended December 31, 2015 and 2014, respectively. This agreement directs the Company to perform a monthly reconciliation to either fund JMMPC's operating deficits, or receive JMMPC's operating surpluses, such that JMMPC will derive no profit or loss.

The Company had a service agreement with Molina Healthcare, Inc. whereby Molina provides certain management services to the Company. Expenses incurred relating to this agreement amounted to \$88,639,876 and \$25,974,860 for the years ended December 31, 2015 and 2014, respectively.

As of December 31, 2015, amounts due to Molina and affiliates totaled \$10,778,933. Inter-company receivables and payables were generally settled on a monthly basis and the year-end balance was collected in the first quarter 2016 in accordance with SSAP 96.

Molina Healthcare, Inc. (the "Parent") and its subsidiaries, including the Company, file a consolidated federal income tax return. Under a written intercompany tax-sharing agreement with the Parent, approved by the Company's board of directors, the combined federal income tax is allocated to each entity which is a party to the consolidation. The Parent collects from, or refunds to, the subsidiaries the amount of taxes or benefits determined as if each entity filed separate tax returns. Under the tax-sharing agreement, the Company has an enforceable right to recoup federal income taxes paid in prior years in the event of future net losses or to recoup net losses carried forward as an offset to future net income subject to federal income taxes. Intercompany balances are settled annually within 90 days of filing the consolidated federal income tax return. In 2015, the Company received \$10,067,000 under the tax-sharing agreement.

Per Section 641.234, Florida Statutes, "All contracts for administrative services, management services, provider services other than individual physician contracts, and with affiliated entities entered into or renewed by a health maintenance organization on or after October 1, 1988, shall contain a provision that the contract shall be canceled upon issuance of an order by the office pursuant to this section".

The Cancellation Clause was not included on the following Molina Healthcare of Florida agreements:

The Health Ins. Providers Fee Payment Consent and Agreement,

The Amended and Restated Services Agreement and

The Federal Tax Sharing Agreement

**Subsequent Event:** The Company submitted the amended and restated agreements to the Office on November 10<sup>th</sup>, 2016, and the applicable Form D to the Office on December 10<sup>th</sup>, 2016 which remediated the finding.



## **FIDELITY BONDS AND OTHER INSURANCE**

The Company maintained general and professional liability insurance at acceptable levels and required its providers to certify and maintain appropriate levels of medical malpractice insurance or its equivalent in accordance with Rule 69O-191.069, F.A.C. The policies provided for written notification to the Office of any reduction, cancellation, non-renewal or termination of required coverage. In addition, the Company was insured by a blanket fidelity bond issued by a licensed Florida carrier, as required by Section 641.22(7), F.S., in the amount of \$10 million.

## **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

The Company did not have a defined benefit plan, but did provide investment options for eligible employees.

The Company's employees participated in a Consolidated/Holding Company defined contribution 401(k) plan sponsored by Molina that covers substantially all full-time salaried and clerical employees. Eligible employees were allowed to contribute up to the maximum allowed by law. The Company matched up to the first 4% of compensation contributed by the employees. The Company had no legal obligation to provide benefits under the plan. The Company's expense recognized in connection with the 401(k) plan was \$883,549 and \$481,551 for the years ended December 31, 2015 and 2014, respectively.

The Parent had an employee stock purchase plan under which the eligible employees of the Company could purchase common shares at 85% of the lower of the fair market value of the Parent's common stock on either the first or last trading day of each six-month offering period. Each participant was limited to a maximum purchase of \$25,000 (as measured by the fair value of the stock acquired) per year through payroll deductions.

## **TERRITORY AND PLAN OF OPERATION**

The Company provided comprehensive health care services to Medicaid members pursuant to a contract with the State of Florida. It held a current health care provider certificate issued by the Florida Agency for Health Care Administration pursuant to Part III of Chapter 641, Florida Statutes, valid until January 27, 2016. The Company was authorized to operate in the following Florida Counties: Broward, Dade, Hillsborough, Osceola, Palm Beach, Pasco, Pinellas, Polk and Seminole.

## COMPANY GROWTH

The Company reported the following for years 2014 through 2015:

	<b>2014</b>	<b>2015</b>
Member months	1,103,876	4,135,992
Year-end enrollment	163,668	439,753
Premiums	454,306,731	1,217,270,616
Revenues	454,306,731	1,217,270,616
Underwriting deductions	475,346,398	1,280,382,300
Net income	(20,212,599)	(38,651,920)
Shareholder dividends	0	0
Paid in surplus received	59,632,220	224,230,962
Admitted assets	113,772,829	632,839,958
Liabilities	105,689,960	495,880,686
Capital and surplus	8,082,869	136,959,272

## REINSURANCE

The Company maintained medical claims reinsurance with a deductible of \$1,000,000 for Medicaid and Marketplace and \$600,000 for Medicare. In addition, incentive risk pool members (those members whose primary care physicians are covered by an incentive risk pool arrangement) had an additional layer of reinsurance that covered claims from \$250,000 up to \$750,000. The reinsurance paid 90% of losses in excess of the deductible. The annual limit for Medicaid and Medicare is \$2,000,000 per member per year. In addition, for Medicaid members in the incentive risk pool, the annual limit is \$2,750,000 per member. Due to its participation in the Marketplace, the Company was also part of the ACA Transitional Reinsurance Program.

## **STATUTORY DEPOSITS**

The Company maintained on deposit with the Office an insolvency protection deposit of \$1,040,000 in accordance with Section 641.285, F.S., and a Rehabilitation Administrative Expense Fund deposit of \$10,000 in accordance with Section 641.227, F.S.

## **FINANCIAL STATEMENTS**

The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment was identified, the impact of such adjustment would be documented separately following the Company's financial statements. Financial Statements, as reported and filed by the Company with the Office, are reflected in the following pages:

**Molina Healthcare Inc.**  
**Admitted Assets, Liabilities, Capital and Surplus**  
**December 31, 2015**

	Per Company	Examination Adjustments	Per Examination
<b>Admitted Assets</b>			
Bonds	\$150,044,933	\$ -	\$ 150,044,933
Cash, cash equivalents and short-term investments	440,361,496	-	440,361,496
	590,406,428	-	590,406,428
Investment income due and accrued	2,239,114	-	2,239,114
Uncollected premiums and agents' balances	2,009,894	-	2,009,894
Accrued retrospective premiums	190,612	-	190,612
Amounts recoverable from reinsurers	12,636,573	-	12,636,573
Current income tax recoverable	11,776,152	-	11,776,152
Healthcare and other amounts receivable	1,130,343	-	1,130,343
Aggregate write-ins for other than invested assets	12,450,842	-	12,450,842
<b>Total admitted assets</b>	<b>\$632,839,958</b>	<b>\$ -</b>	<b>\$ 632,839,958</b>
<b>Liabilities</b>			
Claims unpaid	\$ 173,791,262	\$ -	\$ 173,791,262
Accrued medical incentive pool and bonus amounts	2,595,579	-	2,595,579
Unpaid claims adjustment expenses	2,979,196	-	2,979,196
Aggregate health policy reserves	191,722,649	-	191,722,649
Premiums received in advance	9,492,632	-	9,492,632
General expenses due or accrued	3,864,957	-	3,864,957
Amounts due to parent, subsidiaries and affiliates	10,778,933	-	10,778,933
Liability for amounts held under uninsured plans	22,673	-	22,673
Aggregate write-ins for other liabilities	100,632,805	-	100,632,805
<b>Total liabilities</b>	<b>\$ 495,880,686</b>	<b>\$ -</b>	<b>\$ 495,880,686</b>
<b>Capital and Surplus</b>			
Aggregate write-ins for special surplus funds	\$ 21,000,000	\$ -	\$ 21,000,000
Common capital stock	100	-	100
Gross paid in and contributed surplus	348,762,888	-	348,762,888
Unassigned funds (deficit)	(232,803,716)	-	(232,803,716)
<b>Total capital and surplus</b>	<b>136,959,272</b>	<b>-</b>	<b>136,959,272</b>
<b>Total liabilities, capital and surplus</b>	<b>\$ 632,839,958</b>	<b>\$ -</b>	<b>\$ 632,839,958</b>

**Molina Healthcare Inc.**  
**Statement of Revenue and Expenses**  
**(As reported by the Company)**  
**Year Ended December 31, 2015**

Net premium income	\$ 1,217,385,240
Change in unearned premium reserves	\$ (114,624)
Hospital and medical benefits	638,183,042
Other professional services	82,269,906
Outside referrals	134,723,304
Emergency room and out-of-area	92,425,752
Prescription drugs	129,453,856
Incentive pool, withhold adjustments and bonus amounts	3,973,041
	<hr/> 1,081,028,901
Net reinsurance recoveries	16,740,167
	<hr/> 1,064,288,734
Total hospital and medical	1,064,288,734
Claims adjustment expenses	34,447,938
General administrative expenses	181,645,628
	<hr/> 1,280,382,300
Total underwriting deductions	1,280,382,300
Net underwriting gain	(63,111,684)
Net investment gains	1,818,797
Aggregate write-ins for other income and expenses	(157,500)
	<hr/> (61,450,387)
Income before federal income tax	(61,450,387)
Federal income tax	(22,798,467)
	<hr/> (38,651,920)
Net income	<hr/> <hr/> \$ (38,651,920)



**Molina Healthcare Inc.**  
**Statement of Changes in Capital and Surplus**  
**Two Years Ended December 31, 2015**

Capital and surplus - December 31, 2013	\$ 17,281,100
Net income	(20,212,599)
Change in nonadmitted assets	(49,787,277)
Surplus Adjustments Paid In	59,632,220
Aggregate write-ins for gains or (losses)	1,169,426
<hr/>	
Capital and surplus - December 31, 2014	8,082,870
Net income	(38,651,920)
Change in net unrealized capital gains(loss) less capital gains tax of \$0	(64,562)
Change in nonadmitted assets	(56,638,078)
Surplus Adjustments Paid In	224,230,962
<hr/>	
	136,959,272
Examination adjustments	-
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Capital and surplus - December 31, 2015	\$ 136,959,272
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**Molina Healthcare Inc.**  
**Comparative Analysis of Changes in Capital and Surplus**  
**December 31, 2015**

The following is a reconciliation of capital and surplus between that reported by the Company and as determined by the examination.

<b>Capital and surplus, December 31, 2015 - per annual statement</b>			<b>\$ 136,959,272</b>
	<b>Per</b>	<b>Per</b>	<b>Increase</b>
	<b>Company</b>	<b>Examination</b>	<b>(Decrease)</b>
			<b>In Capital</b>
			<b>&amp; Surplus</b>
Total assets	\$ 632,839,958	\$ 632,839,958	\$ -
Total liabilities	\$ 495,880,686	\$ 495,880,686	\$ -
<b>Capital and surplus, December 31, 2015 - per examination</b>			<b>\$ 136,959,272</b>

## **SUBSEQUENT EVENTS**

Subsequent to the date of examination, Tom Lindquist replaced Paul Muench as a director effective April 6th, 2016.

Following Ivonne Garrote-Torra's departure as CFO effective August 8th, 2016, Ramon Coto served as interim CFO/VP Finance & Analytics until Adriana Day was hired to permanently fill that position effective September 26th, 2016.

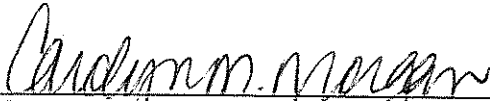
## CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Molina Healthcare of Florida, Inc. consistent with the insurance laws of the State of Florida.

At December 31, 2015, the Company's capital and surplus was \$136,959,272 and the Company was in compliance with the minimum capital and surplus requirement of Section 641.225, F.S.

In addition to the undersigned, the following individuals participated in the examination: Tracy Gates, CFE, Mark Jaster, CFE, Travis Harrison, CPA and Sam Hebert, Participating Examiners, of Highland Clark, LLC. We also recognize Luke Stavenau, Financial Examiner/Analyst Supervisor; Jorge "Jay" Guzman, Financial Specialist; and Lisa Parker, Actuary, participating in the examination.

Respectfully submitted,

  
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Carolyn M. Morgan, APIR  
Director, Life & Health Financial Oversight  
Florida Office of Insurance Regulation