

Office of Legislative
Auditor General



MARCELLA CORA CPA, CIA, CICA
AUDITOR GENERAL

500 GRISWOLD STREET
STE. 842 GUARDIAN BLDG
DETROIT, MICHIGAN 48226

TELEPHONE: (313) 224-8354

July 19, 2024

FINAL REPORT TRANSMITTAL LETTER

Honorable Wayne County Commission:

Enclosed is the final copy of the Office of Legislative Auditor General's Financial Assessment – Limited Review report for the HealthChoice of Michigan audited financial statements for the fiscal year ended September 30, 2023 and 2022. Our report is dated May 17, 2024; DAP No. 2024-57-905. The report was accepted by the Audit Committee at its meeting held on July 10, 2024, and formally received by the Wayne County Commission on July 18, 2024.

We are pleased to inform you that officials from HealthChoice of Michigan provided their full cooperation. If you have any questions, concerns, or desire to discuss the report in greater detail, we would be happy to do so at your convenience. This report is intended for your information and should not be used for any other purpose. Copies of all Office of Legislative Auditor General's final reports can be found on our website at:

<https://www.waynecounty.com/elected/commission/oag/legislative-auditor.aspx>

Sincerely,

Marcella Cora, CPA, CIA, CICA, CGMA
Auditor General

REPORT DISTRIBUTION

Wayne County Department of Health, Human, & Veteran Services

Dr. Abdul El-Sayed, Director, Health, Human, & Veteran Services

Christopher Johnson, Director, Access to Care

Wayne County Department of Management and Budget

John Wallace, Chief Financial Officer

Robert Widigan, Chief Deputy Financial Officer

Yogesh Gusani, Deputy Chief Financial Officer

Shauntika Bullard, Director, Grants and Contract Management

Wayne County Executive



WAYNE COUNTY OFFICE OF LEGISLATIVE AUDITOR GENERAL

**County of Wayne, Michigan
Office of Legislative Auditor General**

Financial Assessment – Limited Review Report

**Wayne County HealthChoice of Michigan
Fiscal Year Ended September 30, 2023
Financial Statements**

DAP NO. 2024-57-905

May 17, 2024

Office of Legislative
Auditor General

MARCELLA CORA, CPA, CIA, CICA
AUDITOR GENERAL



500 GRISWOLD STREET
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DETROIT, MICHIGAN 48226

TELEPHONE: (313) 224-8354

May 17, 2024

DAP No. 2024-57-905

Honorable Melissa Daub, Chairwoman
Committee on Audit
Wayne County Commission
County of Wayne, Michigan
500 Griswold Ave., Suite 727
Detroit, MI 48226

Subject: Office of Legislative Auditor General's Financial Assessment – Limited Review Report for the HealthChoice of Michigan Audited Financial Statements for the Fiscal Year Ended September 30, 2023

Dear Chairwoman Daub:

The Office of Legislative Auditor General (OAG) received the HealthChoice of Michigan (HCoM) financial statements together with the Independent Auditors' Report for the fiscal year ended September 30, 2023 (Appendix A). Because we have performed more extensive financial reviews of the HCoM financial statements in years past in accordance with professional attestation standards, and determined they were complete, thorough, and in accordance with generally accepted accounting principles, we elected to conduct a limited review of the financial statements for the fiscal year ended September 30, 2023.

Our limited review is substantially less in scope than an examination or audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) or Generally Accepted Auditing Standards (GAAS), the objective of which is to express an opinion on the audited financial statements. Accordingly, we do not express such an opinion.

Our limited review of the HCoM audited financial statements, independent auditors' report, and other auditor communications for the fiscal year ended September 30, 2023, included, but was not necessarily limited to, a thorough and complete review of the documents, limited inquiries of HCoM management, and analytical review procedures. Below, we have summarized some key items from the financial statements and other reports for consideration by the Committee and Commission members.

Background

HealthChoice of Michigan (HCoM or the Corporation) was formed in 1992 by Wayne County under the Municipal Health Corporation Act of 1987 with the intention of creating a public health care corporation to advance and promote the health and welfare of residents in Wayne County by providing, through a variety of programs and a system of contractors, access to reasonably priced medical, dental, and pharmacy care to uninsured low-income working persons and their dependents.

HCoM is directed and governed by a Board of Trustees consisting of seven members: three Wayne County Commissioners and four appointees under the Wayne County Executive. The current Board of Trustees can be found in Appendix B of this report.

Personnel and administrative support to manage the program is provided via an Intergovernmental Agreement between HCoM and the County, through the Access to Care Division under the County's Department of Health, Human, and Veteran Services. The terms of the agreement began October 1, 2023 and continue through September 30, 2025. The cost of support for the fiscal years ended September 30, 2023, and 2022 totaled \$666,959 and \$643,523 respectively, of which \$113,521 and \$81,023 was outstanding as of September 30, 2023, and 2022, respectively.

The program is funded equally by monthly contributions from employers and employees. In early 2015, HCoM received a letter from the Centers of Medicare and Medicaid Services recognizing HealthChoice as minimum essential coverage for employees of participating employers and their dependents. This has allowed individuals participating in HealthChoice's program to avoid the shared responsibility payment imposed on individuals that do not have minimum essential coverage. In addition, this designation has allowed HCoM to position and market itself as an affordable health care coverage option for small businesses in Wayne County and the surrounding Metro Detroit area.

HCoM is a separate legal entity from the County, but for which the County is financially responsible; as such, HCoM financial statement information is incorporated into the County's Annual Comprehensive Financial Report.

External Auditors Reports and Letters

The Corporation's independent external auditors, Gregory Terrell & Company, provided an unmodified opinion on the audited financial statements for the fiscal year ended September 30, 2023. An unmodified opinion is issued when the auditors conclude the financial statements, taken as a whole, are presented fairly, in all material respects, the financial position of the entity in accordance with the generally accepted accounting principles. It is the best type of opinion an entity may receive from an external auditor.

Audit and professional standards require independent auditors provide certain communications to those charged with governance regarding matters related to the financial statement audit. Communications received from HCoM's independent auditors indicated no deficiencies in internal controls and no instances of noncompliance or other matters that would require reporting under

audit standards. Furthermore, auditor communications stated no significant audit findings and no disagreements with management regarding financial accounting, reporting, or auditing matters that could be significant to the financial statements or the auditor’s report.

Financial Highlights

The statement of net position is a useful tool for measuring the financial health of an entity. Over time, increases or decreases in net position are an indicator of whether the financial health of an organization is improving or deteriorating.

Statement of Net Position (In Thousands)

Description	FY 2023	FY 2022	Increase (Decrease)	% Change	Primary Reasons
Total assets	\$21,151	\$18,848	\$2,303	12%	Increase due to \$2.2M increase in cash, \$150k increase in investments primarily due to market performance.
Total liabilities	\$5,267	\$3,946	\$1,321	33%	\$1.3M increase in accounts payable
Net position	\$15,884	\$14,903	\$981	7%	

(Pg. 7 of Financial Report)

Net position represents the difference between total assets and total liabilities and is a tool for measuring the financial health of the Corporation. Net position increased by approximately \$1 million or 7% over the prior year primarily due to an increase in total assets.

Total assets at September 30, 2023, approximated \$21.2 million as compared to \$18.8 million in the prior year. The increase is attributable to a \$2.2 million increase in cash, a \$150 increase in investments, offset by a \$1.3 million increase in accounts payable.

Statement of Revenue, Expenses and Changes in Net Position (In Thousands)

Description	FY 2023	FY 2022	Increase (Decrease)	% Change	Primary Reasons
Total revenues	\$18,963	\$20,248	(\$1,285)	-6%	\$1.5M Decrease in healthcare premiums
Total expenses	\$17,981	\$19,166	(\$1,185)	-6%	\$0.8M less in payments to healthcare providers and \$0.6M less in administrator costs.
Change in net position	\$982	\$1,082	(\$100)	-9%	Decrease primarily due to decrease in enrollments

(Pg.8 of Financial Report)

Total revenues decreased by 6%, or \$1,285 thousand over the prior year, primarily as a result of a continued decline in enrollment since the COVID-19 pandemic. Medicaid has increased substantially since the pandemic, with many members qualifying and moving to that program. Losses in membership were also exacerbated by continued negotiations with a large in network hospital system that led to disruptions in services.

Expenses totaled \$18.0 million for FY 2023, which are 6% lower than the prior year due to lower amounts in payments to healthcare providers and administrator costs.

With respect to budgeted amounts, actual FY 2023 revenues were approximately \$65,000 less than budgeted and actual FY 2023 expenses were approximately \$403,000 less than budgeted.

Conclusion and Recommendation

Based on our limited review, nothing came to our attention that caused us to believe the financial report, including the audited financial statements of HealthChoice of Michigan, are not presented in conformity with generally accepted accounting principles.

It is our recommendation that the OAG's Financial Assessment – Limited Review Report of the HealthChoice of Michigan financial statements for fiscal year ended September 30, 2023, be forwarded to the Wayne County Commission for receipt and filing.

Respectfully submitted,



Marcella Cora, CPA, CIA, CGMA, CICA
Auditor General

Cc: Honorable Alisha Bell, Commission Chairwoman, HCoM Board Chair
Honorable Tim Killeen, County Commissioner, HCoM Board Treasurer
Honorable Martha G. Scott, County Commissioner, HCoM Board Member
Dr. Abdul El-Sayed, Director – HHVS, HCoM Board Member
Christopher Johnson, Director – Access to Care Division (HHVS)
John Wallace, Chief Financial Officer, M&B
Robert Widigan, Chief Deputy Financial Officer, M&B
Yogesh Gusani, Deputy Chief Financial Officer, M&B
Shauntika Bullard, Director, Grants and Contract Management, M&B

Appendix A

HealthChoice of Michigan Financial Statements Fiscal Years Ended September 30, 2023 and 2022

HEALTHCHOICE OF MICHIGAN
FINANCIAL STATEMENTS
TOGETHER WITH INDEPENDENT AUDITORS' REPORT
FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022

HEALTHCHOICE OF MICHIGAN
FINANCIAL STATEMENTS
SEPTEMBER 30, 2023 AND 2022
TABLE OF CONTENTS

	<u>Page(s)</u>
Independent Auditors' Report	1-3
Management's Discussion and Analysis	4-6
Statements of Net Position	7
Statements of Revenue, Expenses and Changes in Net Position	8
Statements of Cash Flows	9
Notes to Financial Statements	10-16
Required Supplementary Information	
Budgetary Comparison Schedule	17
Independent Auditor's Report on Internal Control over Financial and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	18-19



**GREGORY
TERRELL
& COMPANY**

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
of HealthChoice of Michigan

Opinion

We have audited the accompanying financial statements of HealthChoice of Michigan, as of and for the year ended September 30, 2023, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the September 30, 2023 financial statements referred to above present fairly, in all material respects, the financial position of HealthChoice of Michigan as of September 30, 2023, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of HealthChoice of Michigan and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about HealthChoice of Michigan's ability to continue as a going concern for the twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of HealthChoice of Michigan's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about HealthChoice of Michigan's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

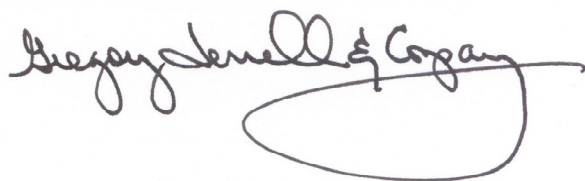
Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 31, 2024, on our consideration of HealthChoice of Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of HealthChoice of Michigan's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering HealthChoice of Michigan's internal control over financial reporting and compliance.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4–6 and 17 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in dark ink, appearing to read "Gregory Terrell & Company", with a large, stylized loop at the end.

GREGORY TERRELL & COMPANY

Certified Public Accountants
Detroit, Michigan

January 31, 2024

HEALTHCHOICE OF MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2023 AND 2022

This section of the annual report of The Corporation (the "Corporation") presents management's discussion and analysis of The Corporation's financial performance for the fiscal years that ended on September 30, 2023 and 2022.

FINANCIAL HIGHLIGHTS

Net position increased by \$981,681 or 6.6% percent, from \$14,902,519 as of September 30, 2022 to \$15,884,200 as of September 30, 2023.

OVERVIEW OF THE FINANCIAL STATEMENTS

Included in this report are the statements of net position, statements of revenue, expenses, and changes in net position, and statements of cash flows (presented on pages 7 through 9). These financial statements report information about the Corporation as a whole using accounting methods similar to those used by private-sector companies and non-profit organizations. All of the current year's revenue and expenses are accounted for in the statements of revenue, expenses, and changes in net position, regardless of when cash is received or paid.

The statement of net position provides us a tool for measuring the financial health of the Corporation. Over time, increases or decreases in net position are an indicator of whether the financial health of the Corporation is improving or deteriorating.

The notes to the financial statements, which begin on page 10, explain some of the information in the financial statements and provide more detailed data.

FINANCIAL ANALYSIS OF THE CORPORATION AS A WHOLE

Table 1 reflects the condensed statements of net position as of September 30, 2023 and 2022:

TABLE 1

STATEMENT OF NET POSITION
September 30, 2023 and 2022

	2023	2022
ASSETS		
Cash and Restricted Cash	\$ 16,552,379	\$ 14,353,457
Investments	4,186,936	4,034,971
Prepaid and Other	92,223	64,228
Fixed Assets	319,473	395,766
Total Assets	<u>\$ 21,151,011</u>	<u>\$ 18,848,422</u>
LIABILITIES		
Accounts Payable	\$ 3,645,944	\$ 2,389,366
Unearned Revenue	1,618,741	1,554,723
Accrued Payroll	2,126	1,814
NET POSITION	<u>\$ 5,266,811</u>	<u>\$ 3,945,903</u>
Net Investment in Capital Assets	\$ 319,473	\$ 395,766
Unrestricted	15,564,727	14,506,753
Total Net Position	<u>\$ 15,884,200</u>	<u>\$ 14,902,519</u>

HEALTHCHOICE OF MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2023 AND 2022
(Continued)

The Corporation's total assets at September 30, 2023 were approximately \$21.2 million and were comprised mostly of cash and cash equivalents. This is an increase in total assets, from 2022, of approximately 12.2%. The increase in investments is primarily due to market performance.

Liabilities were approximately \$5.3 million as of September 30, 2023, an increase from the prior year of approximately \$1.3 million (approximately 33.5%).

Table 2 reflects the condensed statements of revenue, expenses, and changes in net position for the years ended September 30, 2023 and 2022:

TABLE 2

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
September 30, 2023 and 2022

	2023	2022
Operating Revenue	\$ 18,749,069	\$ 20,230,994
Operating Expenses	<u>17,981,439</u>	<u>19,165,717</u>
Net Operating Income	\$ 767,630	\$ 1,065,277
Non-Operating Revenue	<u>214,051</u>	<u>16,614</u>
Net Increase in Net Position	\$ 981,681	\$ 1,081,891
Net Position, Beginning of Year	<u>14,902,519</u>	<u>13,820,628</u>
Net Position, End of Year	<u>\$ 15,884,200</u>	<u>\$ 14,902,519</u>

Operating revenue decreased by approximately 7.3% from the year ended September 30, 2023, with an approximately 6.2% decrease in operating expenses. The net operating income decreased by approximately 27.9% from \$1.1 million for the year ended September 30, 2022 to \$0.8 million for the year ended as of September 30, 2023.

BUDGETARY OVERVIEW

For the year ended September 30, 2023, the Corporation's actual operating revenues were under the final budgeted revenues by approximately \$84,000. The Corporation's operating expenditures were approximately \$403,000 below budgeted levels.

CAPITAL ASSETS

The Corporation had approximately \$319,000 and \$396,000 invested in equipment, as of September 30, 2023 and 2022, respectively. Total depreciation expense for the years ended September 30, 2023 and 2022 was \$77,777 and \$58,150, respectively.

HEALTHCHOICE OF MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2023 AND 2022
(Continued)

ECONOMIC FACTORS

HealthChoice of Michigan continues to experience a decrease in enrollment since the COVID-19 pandemic. Medicaid has increased substantially since the pandemic, with many of our members qualifying and moving to that program. This year our loss in membership was exacerbated by continued negotiations with a large in network hospital system that led to disruptions in services. Surveyed membership has pointed to size of network as the top drawback of the program. A top priority is to complete the contract and work toward increasing our network of hospitals and physicians.

FINANCIAL CONTACT

This financial report is designed to present its users with a general overview of the financial health of The Corporation as well as providing accountability for the funds received. If you have any questions about this report or need additional financial information, contact HealthChoice of Michigan, 500 Griswold Street, 15th Floor North, Detroit, Michigan 48226.

HEALTHCHOICE OF MICHIGAN
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2023 AND 2022

ASSETS

	<u>2023</u>	<u>2022</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 14,362,484	\$ 12,196,821
Restricted Cash	2,189,895	2,156,636
Investments	4,186,936	4,034,971
Prepaid and Other	<u>92,223</u>	<u>64,228</u>
Total Current Assets	<u>\$ 20,831,538</u>	<u>\$ 18,452,656</u>
NONCURRENT ASSETS		
Property and Equipment- Net of Accumulated Depreciation	<u>\$ 319,473</u>	<u>\$ 395,766</u>
Total Non Current Assets	<u>\$ 319,473</u>	<u>\$ 395,766</u>
Total Assets	<u><u>\$ 21,151,011</u></u>	<u><u>\$ 18,848,422</u></u>

LIABILITIES AND NET POSITION

LIABILITIES

Accounts Payable	\$ 1,456,049	\$ 232,730
Accounts Payable - Providers	2,189,895	2,156,636
Unearned Revenue	1,618,741	1,554,723
Accrued Payroll	<u>2,126</u>	<u>1,814</u>
Total Current Liabilities	<u>\$ 5,266,811</u>	<u>\$ 3,945,903</u>
Total Liabilities	<u>\$ 5,266,811</u>	<u>\$ 3,945,903</u>

NET POSITION

Net investment in Capital Assets	\$ 319,473	\$ 395,766
Unrestricted Net Position	<u>15,564,727</u>	<u>14,506,753</u>
Total Net Position	<u>\$ 15,884,200</u>	<u>\$ 14,902,519</u>
Total Liabilities and Net Position	<u><u>\$ 21,151,011</u></u>	<u><u>\$ 18,848,422</u></u>

The accompanying notes are an integral part of this financial statement.

HEALTHCHOICE OF MICHIGAN
STATEMENTS OF REVENUE, EXPENSES AND CHANGE IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
OPERATING REVENUE		
Healthcare Premiums	\$ 18,748,894	\$ 20,230,628
Miscellaneous Income	<u>175</u>	<u>366</u>
Total Operating Revenue	<u>\$ 18,749,069</u>	<u>\$ 20,230,994</u>
OPERATING EXPENSES		
Payments to Healthcare Providers	\$ 16,610,054	\$ 17,421,027
Administrator Costs	916,774	1,509,854
Professional Fees	103,812	60,372
Marketing	273,022	116,314
Depreciation	<u>77,777</u>	<u>58,150</u>
Total Operating Expenses	<u>\$ 17,981,439</u>	<u>\$ 19,165,717</u>
Net Operating Income	<u>\$ 767,630</u>	<u>\$ 1,065,277</u>
NON-OPERATING REVENUE		
Interest Income	\$ 213,640	\$ 15,982
Restitution Income	<u>411</u>	<u>632</u>
Total Non-Operating Revenue	<u>\$ 214,051</u>	<u>\$ 16,614</u>
Net Increase in Net Position	\$ 981,681	\$ 1,081,891
NET POSITION, Beginning of Year	<u>14,902,519</u>	<u>13,820,628</u>
NET POSITION, End of Year	<u><u>\$ 15,884,200</u></u>	<u><u>\$ 14,902,519</u></u>

The accompanying notes are an integral part of this financial statement.

HEALTHCHOICE OF MICHIGAN
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Healthcare Premiums	\$ 18,779,586	\$ 20,216,894
Cash Received from Miscellaneous Income	175	366
Cash Paid to Healthcare Providers	(16,640,297)	(19,180,311)
Cash Paid to Suppliers and Vendors	(1,144)	(44,995)
Net Cash Provided by Operating Activities	<u>\$ 2,138,320</u>	<u>\$ 991,954</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Restitution Income	<u>\$ 411</u>	<u>\$ 632</u>
Net Cash Provided by Noncapital Financing Activities	<u>\$ 411</u>	<u>\$ 632</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Acquisitions of Capital Assets	<u>\$ (1,484)</u>	<u>\$ (300,000)</u>
Net Cash Used in Capital Financing Activities	<u>\$ (1,484)</u>	<u>\$ (300,000)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments	\$ (151,965)	\$ (2,010,066)
Interest Income	213,640	15,982
Net Cash Provided by (Used in) Investing Activities	<u>\$ 61,675</u>	<u>\$ (1,994,084)</u>
Net Increase (Decrease) in Cash and Restricted Cash	\$ 2,198,922	\$ (1,301,498)
CASH AND RESTRICTED CASH, BEGINNING OF YEAR	<u>\$ 14,353,457</u>	<u>\$ 15,654,955</u>
CASH AND RESTRICTED CASH, END OF YEAR	<u>\$ 16,552,379</u>	<u>\$ 14,353,457</u>
RECONCILIATION OF NET OPERATING INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Operating Income	\$ 767,630	\$ 1,065,277
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	77,777	58,150
Change in Prepaid and Other	(27,995)	(32,040)
Change in Accounts Payable	1,223,319	(109,965)
Change in Accrued Payroll	312	494
Change in Unearned Revenue	64,018	(4,284)
Change in Accounts Payable - Providers	33,259	14,322
Net Cash Provided by Operating Activities	<u>\$ 2,138,320</u>	<u>\$ 991,954</u>

The accompanying notes are an integral part of this financial statement.

HEALTHCHOICE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2023 AND 2022

(1) NATURE OF BUSINESS

HealthChoice of Michigan (the "Corporation"), formed by the County of Wayne, Michigan ((the "County) under the Municipal Health Corporation Act of 1987, was incorporated January 30, 1992 to manage a health care program benefiting employers of the County businesses that are unable to provide health care benefits to these employees. The Corporation started its operation in May 1999. The Corporation administers the program in conjunction with Access to Care, a unit of the County, which provides the personnel and administrative support to manage the programs. The total costs of the support for the year ended September 30, 2023 and 2022 was \$666,959 and \$643,523, respectively, of which \$113,521 and \$81,023 was outstanding as of September 30, 2023 and 2022, respectively.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements were prepared using the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America.

Capital Assets

Capital assets are defined by the Corporation as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year.

New Accounting Principle

The GASB issued Statement No. 96, Subscription-Based Information Technology Arrangements. Under GASB 96, a subscriber is required to recognize a subscription liability and an intangible right-to-use subscription asset. The Corporation adopted GASB 96, as of October 1, 2022, which had no impact of their September 30, 2023 financial statements.

Operating Revenue and Expenses

The Corporation's operating revenues and expenses consist of revenue earned and expenses incurred relating to managing and providing health care programs. All other revenue and expenses are reported as non-operating revenue and expenses.

Investments

The Corporation's investments are in certificates of deposits with maturities of more than ninety days.

HEALTHCHOICE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2023 AND 2022
(Continued)

(2) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Prepaid Expenses

Prepaid expenses primarily represent cash payments made in advance of when the related expenditures are recognized for financial statement purposes.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities; the disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the relevant period. Actual results could differ from the estimates.

Deferred Inflows and Deferred Outflows of Resources

The statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The Corporation did not have any items that qualify for reporting as deferred outflows or inflows of resources as of September 30, 2023 and 2022.

Software and Equipment

These assets are stated at cost and are depreciated on a straight-line basis.

Fair Value Measurements

The Corporation uses fair value measurements in the preparation of its financial statements, which utilize various inputs, including those that can be readily observable, corroborated, or are generally unobservable. The Corporation utilizes market-based data and valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Additionally, the Corporation applies assumptions that market participants would use in pricing an asset or liability, including assumptions about risk.

HEALTHCHOICE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2023 AND 2022
(Continued)

(2) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Fair Value Measurements cont'd

The measurement of fair value includes a hierarchy based on the quality of inputs used to measure fair value. Financial assets and liabilities are categorized into this three-level fair value hierarchy based on the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable inputs.

The various levels of the fair value hierarchy are described as follows:

- *Level 1* – Financial assets and liabilities whose values are based on unadjusted quoted market prices for identical assets and liabilities in an active market that the Corporation has the ability to access.
- *Level 2* – Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable for substantially the full term of the asset or liability.
- *Level 3* – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

The use of observable market data, when available, in making fair value measurements. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement.

HEALTHCHOICE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2023 AND 2022
(Continued)

(3) **CASH AND INVESTMENTS**

The Corporation's cash and investments are subject to several types of risks which are discussed in more detail below:

Custodial Credit Risk of Bank Deposits and Investments

Custodial credit risk is the risk that in the event of a bank failure, the Corporation's deposits may not be returned to it, or it may not be able to recover the value of its bank deposits and investments. The Corporation's cash is in two banking institutions. At September 30, 2023, the bank balance of deposits was \$16,016,499, including \$4,186,936 of certificate of deposits reported as investments on the Statement of Net Position, and \$14,516,499 of that balance was not insured by the Federal Deposit Insurance Corporation (FDIC). At September 30, 2022, the bank balance of deposits was \$18,451,130, including \$4,034,971 of certificate of deposits reported as investments on the Statement of Net Position, and \$16,951,130 was not insured by the FDIC. The Corporation evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Cash and cash equivalents include cash on hand, demand deposits, certificate of deposits, and short-term investments with a maturity of ninety days or less when acquired. Investments are stated at fair value. Restricted cash is comprised mainly of cash set aside for accounts payable - providers which is held by the Corporation as a reserve fund.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Corporation's policy minimizes interest rate risk by investing funds primarily in cash and money market accounts.

Concentration of Credit Risk

The Corporation's policy minimizes the concentration of credit risk by requiring diversification of the investment portfolio so that the impact of potential losses from any one type of security will be minimized.

HEALTHCHOICE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2023 AND 2022
(Continued)

(3) **CASH AND INVESTMENTS** (continued)

Foreign Currency Risk

Foreign Currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S dollar value, as a result of changes in foreign currency exchange rates. The Corporation's policy prohibits investment in foreign currency.

(4) **INVESTMENTS**

The Corporation's Fair Value hierarchy for these assets measured at fair value on a recurring basis as of September 30, 2023 and 2022 is summarized as follows:

<u>Fair Value Measurements</u>				
<u>Description</u>	<u>Quoted Prices in Active Markets for Identical Assets</u>	<u>Level 2: Significant Other Observable Inputs</u>	<u>Level 3: Significant Unobservable Inputs</u>	<u>Total</u>
2023				
Assets				
Investments at Fair Value:				
Certificates of Deposits	\$ -	\$ 4,186,936	\$ -	\$ 4,186,936
Total	<u>\$ -</u>	<u>\$ 4,186,936</u>	<u>\$ -</u>	<u>\$ 4,186,936</u>
<u>Fair Value Measurements</u>				
<u>Description</u>	<u>Quoted Prices in Active Markets for Identical Assets</u>	<u>Level 2: Significant Other Observable Inputs</u>	<u>Level 3: Significant Unobservable Inputs</u>	<u>Total</u>
2022				
Assets				
Investments at Fair Value:				
Certificates of Deposits	\$ -	\$ 4,034,971	\$ -	\$ 4,034,971
Total	<u>\$ -</u>	<u>\$ 4,034,971</u>	<u>\$ -</u>	<u>\$ 4,034,971</u>

HEALTHCHOICE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2023 AND 2022
(Continued)

(5) **UNEARNED REVENUE**

Unearned revenue consists of premiums received related to the healthcare program from participating businesses which were received prior to September 30, but have a coverage period subsequent to September 30, for which the services have not yet been provided as of September 30. The unearned revenue for the years ended September 30, 2023 and 2022 was \$1,618,741 and \$1,554,723, respectively .

(6) **ACCOUNTS PAYABLE - PROVIDERS**

The Corporation has the risk of claims from its various health care providers. The risk is minimized and addressed by the establishment of cash reserves for future claims. The Corporation has amended and modified its coverage policies to address possible claim opportunities. Accounts Payable-Providers for the year ended September 30, 2023 and 2022 was \$2,189,895 and \$2,156,636, respectively.

(7) **SOFTWARE AND EQUIPMENT**

The Corporation developed database software to maintain client records and to utilize for premium billings. The software and the equipment for the years ended September 30, 2023 and 2022 is summarized as follows:

	<u>2023</u>	<u>2022</u>
Database Software	\$ 609,500	\$ 409,500
Equipment	6,174	4,690
Work in Progress	<u>-</u>	<u>200,000</u>
	\$ 615,674	\$ 614,190
Less Accumulated Depreciation	<u>(296,201)</u>	<u>(218,424)</u>
Total Net	<u>\$ 319,473</u>	<u>\$ 395,766</u>

Depreciation expense amounted to \$77,777 and \$58,150 for the years ended September 30, 2023 and 2022, respectively.

(8) **RESTITUTION**

During fiscal years ended September 30, 2023 and 2022, the Corporation received previously written off restitution of \$411 and \$632, respectively, for the settlement with HealthChoice's former executive director. The total restitution ordered by the judge in the case was \$1,030,767. The Corporation considers the collectability of the remaining \$591,769 to be highly unlikely, so the remaining balance has been fully reserved, and no net receivable is shown on the statement of net position.

HEALTHCHOICE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2023 AND 2022
(Continued)

(9) **SUBSEQUENT EVENTS**

Subsequent events have been evaluated through January 31, 2024, which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

HEALTHCHOICE OF MICHIGAN
BUDGETARY COMPARISON SCHEDULE
SEPTEMBER 30, 2023

	Originally Adopted <u>Budget</u>	Final Amended <u>Budget</u>	Actual <u>Balance</u>	Variance Over (Under)
Operating Revenue				
Healthcare Premiums	\$ 20,500,000	\$ 18,830,000	\$ 18,748,894	\$ (81,106)
Miscellaneous Income	<u>3,035</u>	<u>3,035</u>	<u>175</u>	<u>(2,860)</u>
Total Operating Revenues	<u>\$ 20,503,035</u>	<u>\$ 18,833,035</u>	<u>\$ 18,749,069</u>	<u>\$ (83,966)</u>
Operating Expenses				
Healthcare Providers	\$ 18,255,000	\$ 16,624,156	\$ 16,610,054	\$ (14,102)
Administrator Costs	2,220,050	1,097,050	916,774	(180,276)
Professional Fees	347,000	347,000	103,812	(243,188)
Marketing	132,000	282,000	273,022	(8,978)
Depreciation	<u>32,500</u>	<u>34,000</u>	<u>77,777</u>	<u>43,777</u>
Total Operating Expenses	<u>\$ 20,986,550</u>	<u>\$ 18,384,206</u>	<u>\$ 17,981,439</u>	<u>\$ (402,767)</u>
Net Operating Income	<u>\$ (483,515)</u>	<u>\$ 448,829</u>	<u>\$ 767,630</u>	<u>\$ 318,801</u>
Non-Operating Revenue				
Interest Income	\$ 20,000	\$ 193,000	\$ 213,640	\$ 20,640
Restitution Income	<u>1,200</u>	<u>2,320</u>	<u>411</u>	<u>(1,909)</u>
Total Non-Operating Revenue	<u>\$ 21,200</u>	<u>\$ 195,320</u>	<u>\$ 214,051</u>	<u>\$ 18,731</u>
Net Increase in Net Position	<u>\$ (462,315)</u>	<u>\$ 644,149</u>	<u>\$ 981,681</u>	<u>\$ 337,532</u>



**GREGORY
TERRELL
& COMPANY**

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees HealthChoice
of Michigan Detroit, Michigan

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of HealthChoice of Michigan (the "Corporation") as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements and have issued our report thereon dated January 31, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

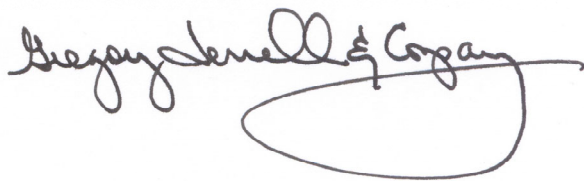
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance *with* which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in dark ink, appearing to read "Gregory Terrell & Company", with a large, stylized loop at the end.

GREGORY TERRELL & COMPANY

Certified Public Accountants
Detroit, Michigan

January 31, 2024

Appendix B

HealthChoice of Michigan Board of Trustees and Voting Members



**2024 BOARD OF TRUSTEES
AND VOTING MEMBERS**

ALISHA BELL Chair - HealthChoice of Michigan Wayne County Commissioner Chair Wayne County Commission <i>Admin: Michelle Joyner 224-0936</i>	Guardian Building 500 Griswold, 7 th floor Detroit, MI 48226
ASSAD TURFE Vice-Chair – HealthChoice of Michigan Deputy County Executive <i>Admin: Candice Smith-Parker 967-1390</i>	Guardian Building 500 Griswold, 32 nd floor Detroit, MI 48226
HAROLYN NIMMO Secretary - HealthChoice of Michigan Deputy Director HHVS <i>Admin: LaQuitia Jackson 224-5015</i>	Guardian Building 500 Griswold, 10 th floor Detroit, MI 48226
TIM KILLEEN Treasurer - HealthChoice of Michigan Wayne County Commissioner Member: HHS Commission Committee <i>Admin: Tamika Kennedy 224-0920</i>	Guardian Building 500 Griswold, 7 th floor Detroit, MI 48226
MARTHA G. SCOTT Member - HealthChoice of Michigan Wayne County Commissioner Chair: HHS Commission Committee <i>Admin: 224-0878</i>	Guardian Building 500 Griswold, 7 th floor Detroit, MI 48226
ABDUL EL-SAYED Member - HealthChoice of Michigan Director HHVS <i>Admin: Tara Terpstra 224-0823</i>	Guardian Building 500 Griswold, 10 th Floor Detroit, MI 48226
AVANI SHETH Member – HealthChoice of Michigan Public Health Officer	Health Administration Building 33030 Van Born Road Wayne, MI 48184

*****All Board Members' terms expire 12/31/2024*****