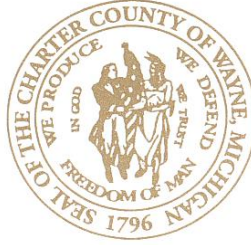


Office of Legislative
Auditor General

MARCELLA CORA CPA, CIA, CICA, CGMA
AUDITOR GENERAL



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

TELEPHONE: (313) 224-8354

October 15, 2021

FINAL REPORT TRANSMITTAL LETTER

Honorable Wayne County Commissioners:

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, 2020 and 2019. Our report is dated September 7, 2021; DAP No. 2021-57-906. The report was accepted by the Audit Committee at its meeting held on September 29, 2021, and formally received by the Wayne County Commission on October 7, 2021.

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, CGMA
Auditor General

REPORT DISTRIBUTION

Wayne County Department of Health, Human, & Veteran Services

Christopher Johnson, Director, Access to Care
Melita Jordan, Director, Health, Human, & Veteran Services

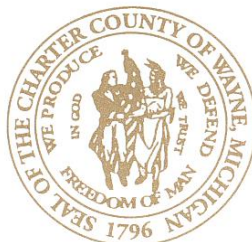
Wayne County Department of Management and Budget

Hughey Newsome, Chief Financial Officer
Yogesh Gusani, Deputy Chief Financial Officer
Kamau Kheperu, Finance Director
Ernestine Williams, Assistant Finance Director
Shauntika Bullard, Director, Grants and Contract Management

Wayne County Executive

Office of Legislative
Auditor General

MARCELLA CORA CPA, CIA, CICA, CGMA
AUDITOR GENERAL



500 GRISWOLD STREET
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DETROIT, MICHIGAN 48226
TELEPHONE: (313) 224-8354

September 7, 2021

DAP No. 2021-57-906

Honorable Raymond E. Basham, Chairman
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, 2020.

Dear Chairman Basham:

The Office of Legislative Auditor General (OAG) received (see attachment) the HealthChoice of Michigan financial statements for the fiscal year ended September 30, 2020 for review, assessment and recommendation. Because we have performed more extensive financial reviews of the HealthChoice of Michigan financial statements in the 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 their financial statements for the fiscal year ended September 30, 2020.

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

Our limited review of the HealthChoice of Michigan audited financial statements, for the fiscal year ended September 30, 2020, included, but was not necessarily limited to, a thorough and complete review of the documents; limited inquiries of county officials; and analytical review procedures. Below, we have summarized some key items from the financial and other reports for consideration by the Committee and Commission members.

Background

- 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 benefitting 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 program. The total cost of the support for the year ended September 30, 2020 and 2019 was \$586,044 and \$655,043, respectively, of which \$236,044 and \$71,043 was outstanding as of September 30, 2020 and 2019, accordingly.
- For financial reporting purposes, the Corporation is a legal unit separate from the County of Wayne, Michigan. The financial statements of the Corporation will be incorporated in the financial statements of the County as a component unit.

External Auditors Reports and Letters

- The HealthChoice of Michigan received an “Unmodified Opinion” on the audited financial statements for the Corporation for the fiscal year ended September 30, 2020 and 2019 from Alan C. Young & Associates, P.C., the independent external auditor. An unmodified opinion is issued when the external 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.
- A report on Internal Controls over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. The report identified no deficiencies in internal controls that are considered material weaknesses or no instances of noncompliance or other matters that would be required to be reported under Government Auditing Standards.
- A Communication Required Under AU-C 260 (To Those Charged with Governance), and Other Comments and Recommendations. In this communication, the auditors stated that they became aware of certain deficiencies in internal control other than significant deficiencies or material weaknesses, and other matters that are opportunities for strengthening internal controls and operating efficiency, as described below:

RESERVES

Condition:

When the Corporation pays a “Network Provider” it withholds a certain agreed upon percentage, up to a contractually agreed upon amount, to be used in case of bankruptcy or insolvency of the “Network Provider” or a chronic or other failure of the “Network Provider” to timely and appropriately reimburse the providers of services rendered to the enrollees. According to the contract agreements with its “Network Providers,” the Corporation should maintain the balance in a Reserve Fund Bank Account. The Corporation shall pay the Reserve Fund deposits to the bank within 5 business days after it pays the “Network Providers” the corresponding payment. During the audit a few occurrences were noted where the deposit to the Reserve Fund was made more than 5 business days after the corresponding payment to the “Network Providers” was made. In addition, it was noted that the Corporation continued to withhold percentage of the payment of a “Network Provider” for the Reserve Fund for several months after the reserve balance had reached the agreed upon limit based on the contract with the “Network Provider.” The Corporation subsequently disbursed the excess reserve withheld to the “Network Provider.”

Recommendation:

The Corporation establish a process to ensure that the deposits in the Reserve Fund are made within 5 business days after it pays the “Network Providers” the corresponding payment as per the contractual agreement. Further, the Corporation should review the Reserve Fund balance for each “Network Provider” when calculating their monthly disbursement to ensure that it does not withhold from the “Network Provider” reserves in excess of their agreed upon reserve limit. This will ensure full compliance with the contractual agreements with the “Network Providers.”

Financial Highlights

- Total Assets at September 30, 2020 were approximately \$15.9 million and were comprised mostly of cash and cash equivalents. This is an increase in assets, from 2019, of approximately 19%. This increase is primarily due to a boost in cash and cash equivalents and investments.
- Total Liabilities were approximately \$4.1 million as of September 30, 2020, and increase from the prior year of approximately \$0.3 million, or approximately 8%.
- Net Position increased by \$2,191,219, or 23%, from \$9,668,667 as of September 30, 2019 to \$11,859,886 as of September 30, 2020.

Statement of Net Position (In Thousands)

Description	FY 2020	FY 2019	Increase (Decrease)	Primary Reasons
Assets	\$15,917	\$13,426	\$2,491	Primarily due to increase in Investments.
Liabilities	\$4,057	\$3,758	\$0.3	Consistent with the prior year.
Net Position	\$11,860	\$9,668	\$2,192	Increase primarily due to operating revenue exceeding operating expenses by \$2.1 million.

- Operating revenues increased by 2.7% from the year ended September 30, 2019 to the year ended September 30, 2020 with an approximately 1% increase in operating expenses. The net operating income increased by approximately 20% from \$1.8 million as of September 30, 2019 to \$2.2 million as of September 30, 2020.
- For the year ended September 30, 2020, the Corporation’s actual operating revenues were under final budgeted revenues by approximately \$383,000. The Corporation’s operating expenditures were approximately \$604,000 below budgeted levels.

Economic Factors

HealthChoice of Michigan experienced a decrease in enrollment in the second half of the fiscal year. The loss was due to the COVID-19 pandemic that forced many small businesses to close for significant periods of time. The small business sector has been one of the hardest hit areas during the pandemic. Even with the loss, HealthChoice’s enrollment was higher at the end of this fiscal year (‘19-’20) compared to the end of the previous fiscal year (‘18-’19). It is expected that small businesses will continue to struggle as the pandemic persists into 2021. HealthChoice is anticipating continued fluctuations in enrollment.

Restitution Income

During the fiscal years ended September 30, 2020 and 2019, the Corporation received previously written off restitution of \$498 and \$2,085, 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 \$592,278 to be highly unlikely, so the remaining balance has been fully reserved, and no net receivable is shown on the statement of net position.

COVID-19 Pandemic

In December 2019, a novel strain of coronavirus was reported to have surfaced in China. In March 2020, the World Health Organization officially declared this coronavirus outbreak (also referred to as COVID-19) a pandemic. The spread of this virus began to cause some business disruption in the Corporation’s business. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration. Therefore, management is carefully monitoring the

situation and evaluating its options during this time and expects the matter to negatively impact its operating results. However, the related financial impact and duration cannot be reasonably estimated at this time. No adjustments have been made to these financial statements because of this uncertainty.

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, 2020, be forwarded to the Wayne County Commission for receiving and filing.

Respectfully submitted,



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

Cc: Honorable Alisha Bell, Chair, Board of Trustees, HealthChoice of Michigan
Honorable Tim Killeen, Treasurer – HealthChoice of Michigan
Honorable Monique Baker-McCormick, Member, Board of Trustees, HealthChoice of Michigan
Christopher Johnson, Director-Access to Care
Melita Jordan, Director, Health, Human, & Veteran Services
Hughey Newsome, Chief Financial Officer
Yogesh Gusani, Deputy Chief Financial Officer
Shauntika Bullard, Director, Grants and Contract Management

Appendix A

HealthChoice of Michigan 2021 Board of Trustees and Voting Members



**2021 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
MELITA JORDAN Vice-Chair – HealthChoice of Michigan Director HHVS <i>Admin: Connie Camilleri – 224-0857</i>	Guardian Building 500 Griswold, 10 th floor Detroit, MI 48226
CAROL AUSTERBERRY Secretary - HealthChoice of Michigan Public Health Officer <i>Phone: 734-727-7045</i>	Health Administration Building 33030 Van Born Road Wayne, MI 48184
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
MONIQUE BAKER-MCCORMICK Member - HealthChoice of Michigan Wayne County Commissioner Chair: HHS Commission Committee <i>Admin: 224-6817</i>	Guardian Building 500 Griswold, 7 th floor Detroit, MI 48226
VACANT Deputy County Executive <i>Admin:</i>	Guardian Building 500 Griswold, 32 nd Floor Detroit, MI 48226
BRIAN MANNING Member - HealthChoice of Michigan Deputy Director HHVS <i>Admin: Connie Camilleri – 224-0857</i>	Guardian Building 500 Griswold, 10 th floor Detroit, MI 48226

STAFF:

Christopher Johnson, Director
 T. R. Winters, Wayne County Corporation Counsel
 Patsy Walton – Administrative Assistant

Appendix B

**HealthChoice of Michigan
Financial Statements
Fiscal Years Ended September 30, 2020 and 2019**

HEALTHCHOICE OF MICHIGAN

FINANCIAL STATEMENTS

SEPTEMBER 30, 2020 and 2019

HEALTHCHOICE OF MICHIGAN

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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	15
<u>REQUIRED SUPPLEMENTARY INFORMATION: (Unaudited)</u>	
Budgetary Comparison Schedule	18



Alan C. Young & Associates, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

7310 Woodward Ave, Suite 740
Detroit, MI 48202

(313) 873-7500 (Tel.)
(313) 873-7502 (Fax)
www.alancyoung.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
HealthChoice of Michigan
Detroit, Michigan

We have audited the accompanying financial statements of HealthChoice of Michigan ("the Corporation"), a component unit of the County of Wayne, Michigan as of September 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed on the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of September 30, 2020 and 2019, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

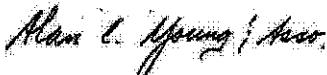
Other Matters

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 (identified in the table of contents) be presented to supplement the basic financial statements. Such information, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated March 4, 2021 on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 the Corporation's internal control over financial reporting and compliance.



Detroit, Michigan
March 4, 2021

HEALTHCHOICE OF MICHIGAN

Management's Discussion and Analysis September 30, 2020 and 2019

This section of the annual report of HealthChoice of Michigan (the Corporation) presents management's discussion and analysis of HealthChoice's financial performance for the fiscal year that ended on September 30, 2020.

FINANCIAL HIGHLIGHTS

Net position increased by \$2,191,219 or 23% percent, from \$9,668,667 as of September 30, 2019 to \$11,859,886 as of September 30, 2020.

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 6 through 8). 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 9, explain some of the information in the financial statements and provide more detailed data.

FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE

Table 1 reflects the condensed statements of net position as of September 30, 2020 and 2019:

TABLE 1

STATEMENT OF NET POSITION September 30, 2020 and 2019 (in thousands of dollars)

	2020	2019
ASSETS		
Cash and Restricted Cash	\$ 13,763	\$ 13,268
Investments	2,021	-
Other Current Assets	51	42
Fixed Assets	82	116
Total Assets	15,917	13,426
LIABILITIES		
Accounts Payable	2,392	2,122
Unearned Revenue	1,665	1,634
Accrued Payroll	-	2
Total Liabilities	4,057	3,758
NET POSITION		
Net Investment in Capital Assets	82	116
Unrestricted	11,778	9,552
Total Net Position	\$ 11,860	\$ 9,668

HEALTHCHOICE OF MICHIGAN

Management's Discussion and Analysis (Continued) September 30, 2020 and 2019

FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE (Continued)

The Corporation's total assets at September 30, 2020 were approximately \$15.9 million and were comprised mostly of cash and cash equivalents. This is an increase in assets, from 2019, of approximately 19%. This increase is primarily due to a boost in cash and cash equivalents and Investments.

Liabilities were approximately \$4.1 million as of September 30, 2020, an increase from the prior year of approximately \$0.3 million (approximately 8%).

Table 2 reflects the condensed statements of revenue, expenses, and changes in net position for the years ended September 30, 2020 and 2019:

TABLE 2

STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION September 30, 2020 and 2019 (in thousands of dollars)

	<u>2020</u>	<u>2019</u>
Operating Revenue	\$ 21,623	\$ 21,060
Operating Expenses	<u>19,463</u>	<u>19,265</u>
Net Operating Income	2,160	1,795
Non-Operating Revenue	<u>32</u>	<u>20</u>
Net Increase in Net Position	2,192	1,815
Net Position, Beginning of Year	<u>9,668</u>	<u>7,853</u>
Net Position, End of Year	<u>\$ 11,860</u>	<u>\$ 9,668</u>

Operating revenue increased by approximately 2.7% from the year ended September 30, 2019 to the year ended September 30, 2020, with an approximately 1.0% increase in operating expenses. The net operating income increased by approximately 20% from \$1.8 million as of September 30, 2019 to \$2.2 million as of September 30, 2020.

BUDGETARY OVERVIEW

For the year ended September 30, 2020, the Corporation's actual operating revenues were under the final budgeted revenues by approximately \$383 thousand. The Corporation's operating expenditures were approximately \$604 thousand below budgeted levels.

CAPITAL ASSETS

The Corporation had approximately \$82 thousand and \$116 thousand invested in equipment, as of September 30, 2020 and 2019, respectively. Total depreciation expense for the years ended September 30, 2020 and 2019 was \$39,605 and \$37,938, respectively.

HEALTHCHOICE OF MICHIGAN

**Management's Discussion and Analysis (Continued)
September 30, 2020 and 2019**

ECONOMIC FACTORS

HealthChoice of Michigan experienced a decrease in enrollment in the second half of the fiscal year. The loss was due to the COVID-19 pandemic that forced many small businesses to close for significant periods of time. The small business sector has been one of the hardest hit areas during the pandemic. Even with the loss, HealthChoice's enrollment was higher at the end of this fiscal year ('19-'20) compared to the end of the previous fiscal year ('18-'19). It is expected that small businesses will continue to struggle as the pandemic persists into 2021. HealthChoice is anticipating continued fluctuations in enrollment.

FINANCIAL CONTACT

This financial report is designed to present its users with a general overview of the financial health of HealthChoice 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, 2020 and 2019

ASSETS	2020	2019
Current Assets		
Cash (Note 3)	\$ 11,617,627	\$ 11,219,515
Restricted Cash (Note 2)	2,145,000	2,048,038
Investments (Note 3)	2,021,240	-
Prepaid & Others	51,640	42,115
Total Current Assets	15,835,507	13,309,668
Fixed Assets		
Software and Equipment (Note 7)	81,729	116,334
Total Fixed Assets	81,729	116,334
Total Assets	\$ 15,917,236	\$ 13,426,002
LIABILITIES		
Current Liabilities		
Accounts Payable	\$ 246,721	\$ 73,706
Accounts Payable - Providers (Note 6)	2,145,000	2,048,038
Unearned Revenue (Note 4)	1,665,479	1,633,708
Accrued Payroll	150	1,883
Total Current Liabilities	4,057,350	3,757,335
Total Liabilities	4,057,350	3,757,335
NET POSITION		
Net Investment in Capital Assets	81,729	116,334
Unrestricted Net Position	11,778,157	9,552,333
Total Net Position	11,859,886	9,668,667
Total Liabilities and Net Position	\$ 15,917,236	\$ 13,426,002

The accompanying notes are an integral part of these financial statements.

HEALTHCHOICE OF MICHIGAN

Statements of Revenues, Expenses, and Changes in Net Position Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating Revenue		
Healthcare Premiums	\$ 21,621,653	\$ 21,059,035
Miscellaneous Income	1,541	1,533
Total Operating Revenue	<u>21,623,194</u>	<u>21,060,568</u>
Operating Expenses		
Payments to Healthcare Providers	18,603,961	18,206,766
Administrator Costs	746,868	863,629
Professional Fees	47,628	108,251
Marketing	22,960	48,569
Bad Debts	2,064	-
Depreciation	39,605	37,938
Total Operating Expenses	<u>19,463,086</u>	<u>19,265,153</u>
Net Operating Income	<u>2,160,108</u>	<u>1,795,415</u>
Non-Operating Revenues		
Interest Income	30,613	17,829
Restitution Income (Note 8)	498	2,085
Total Non-Operating Revenues	<u>31,111</u>	<u>19,914</u>
Net Increase in Net Position	2,191,219	1,815,329
Net Position, Beginning of Year	<u>9,668,667</u>	<u>7,853,338</u>
Net Position, End of Year	<u>\$ 11,859,886</u>	<u>\$ 9,668,667</u>

The accompanying notes are an integral part of these financial statements.

HEALTHCHOICE OF MICHIGAN

Statements of Cash Flows Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities		
Cash Received from Healthcare Premiums	\$ 21,652,901	\$ 21,181,907
Cash Received from Restitution and Interest Income	31,111	19,914
Cash Paid to Healthcare Providers	(18,506,999)	(18,207,152)
Cash Paid to Suppliers and Vendors	(655,699)	(1,138,420)
Net Cash Provided by Operating Activities	<u>2,521,314</u>	<u>1,856,249</u>
Cash Flows from Capital Financing Activities		
Acquisitions of Capital Assets	(5,000)	-
Net Cash Used in Capital Financing Activities	<u>(5,000)</u>	<u>-</u>
Cash Flows from Investing Activities		
Purchase of Investments	(2,021,240)	-
Net Cash Used in Investing Activities	<u>(2,021,240)</u>	<u>-</u>
Net Increase in Cash & Restricted Cash	495,074	1,856,249
Cash & Restricted Cash Balance, Beginning of Year	<u>13,267,553</u>	<u>11,411,304</u>
Cash & Restricted Cash Balance, End of Year	<u>\$ 13,762,627</u>	<u>\$ 13,267,553</u>
Reconciliation of Net Operating Income to Cash Flows from Operating Activities:	<u>2020</u>	<u>2019</u>
Net Increase in Net Position	\$ 2,191,219	\$ 1,815,329
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	39,605	37,938
Change in Prepaid & Other	(9,525)	(38,580)
Change in Accounts Payable	173,015	(79,640)
Change in Accrued Payroll	(1,733)	249
Change in Unearned Revenue	31,771	121,339
Change in Accounts Payable - Providers	96,962	(386)
Net Cash Provided by Operating Activities	<u>\$ 2,521,314</u>	<u>\$ 1,856,249</u>

The accompanying notes are an integral part of these financial statements.

HEALTHCHOICE OF MICHIGAN

Notes to Financial Statements
September 30, 2020 and 2019

1) ORGANIZATION

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 program. The total cost of the support for the year ended September 30, 2020 and 2019 was \$586,044 and \$655,043, respectively, of which \$236,044 and \$71,043 was outstanding as of September 30, 2020 and 2019, accordingly.

For financial reporting purposes, the Corporation is a legal unit separate from the County of Wayne, Michigan. The financial statements of the Corporation will be incorporated in the financial statements of the County as a component unit.

2) SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Corporation are prepared in accordance with accounting principles generally accepted in the United States of America for proprietary funds, which are similar to those for private business enterprises.

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting. Accordingly, revenue is recorded when earned, and expenses are recorded when incurred.

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.

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.

Cash Equivalents

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 comprise mainly of cash set aside in lieu of accounts payable providers which is held by the Corporation as a reserve fund.

Investments

The corporation’s investments are in made of certificates of deposits with maturities of more than ninety days.

HEALTHCHOICE OF MICHIGAN

Notes to Financial Statements (Continued)
September 30, 2020 and 2019

2) 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 generally accepted accounting principles requires management to make estimates and assumptions. This will affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these 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 September 30, 2020 and 2019.

Reclassification

Certain prior year amounts have been reclassified for consistency with current year presentation. These reclassifications had no effect on the reported results of operations.

3) CASH AND INVESTMENTS

The Corporation's cash and investments are subject to several types of risk 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. Out of \$15,976,828 in deposits, including \$2,021,240 of certificate of deposits reported as investment on the Statement of Net Position, \$14,467,203 was not insured by the Federal Deposit Insurance Corporation (FDIC) as of September 30, 2020 and out of \$13,288,015 in deposits \$12,788,015 was not insured by FDIC as of September 30, 2019. 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.

3) CASH AND INVESTMENTS (Continued)

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 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.

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.

Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Corporation has the ability to access.

Level 2: Inputs to the valuation methodology include:

Quoted prices for similar assets or liabilities in active markets;

Quoted prices for identical or similar assets or liabilities in inactive markets

Inputs other than quoted prices that are observable for the assets or liabilities;

Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

HEALTHCHOICE OF MICHIGAN

Notes to Financial Statements (Continued)
September 30, 2020 and 2019

3) CASH AND INVESTMENTS (Continued)

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The certificates of deposit that make up the investment balance are valued at amortized cost, which approximates fair value. Therefore, they are considered as Level 2 investments.

4) 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, 2020 and 2019 was \$1,665,479 and \$1,633,708, respectively.

5) OPERATING LEASES

The Corporation has an operating lease, for office equipment that expires in March 2023. Rental expenses for the lease consisted of \$8,038 for the year ended September 30, 2020 and 2019, respectively.

Future minimum lease payments under operating leases that have remaining terms beyond September 30, 2020 are:

<u>Year Ended</u>	<u>Amount</u>
2021	\$ 8,040
2022	8,040
2023	4,020
Total	\$ 20,100

HEALTHCHOICE OF MICHIGAN

Notes to Financial Statements (Continued)
September 30, 2020 and 2019

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. In 2019, the Corporation added a second provider for its healthcare coverage. This provider opted out of establishing a reserve for future claims, and instead posted a fidelity bond in the name of the Corporation. In management's opinion, these reserves and the fidelity bond are sufficient to cover the Corporation's risk. Accounts Payable – Providers for the year ended September 30, 2020 and 2019 was \$2,145,000 and \$2,048,038, 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, 2020 and 2019 is summarized as follows:

	<u>2020</u>	<u>2019</u>
Database Software	\$ 197,500	\$ 192,500
Equipment	4,690	4,690
Less: Accumulated Depreciation	<u>(120,461)</u>	<u>(80,856)</u>
Total	<u>\$ 81,729</u>	<u>\$ 116,334</u>

Depreciation expense amounted to \$39,605 and \$37,938 for the years ended September 30, 2020 and 2019, respectively.

8) RESTITUTION INCOME

During fiscal years ended September 30, 2020 and 2019, the Corporation received previously written off restitution of \$498 and \$2,085, 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 \$592,278 to be highly unlikely, so the remaining balance has been fully reserved, and no net receivable is shown on the statement of net position.

9) COVID-19 PANDEMIC

In December 2019, a novel strain of coronavirus was reported to have surfaced in China. In March 2020, the World Health Organization officially declared this coronavirus outbreak (also referred to as COVID-19) a pandemic. The spread of this virus began to cause some business disruption in Corporation's business. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration. Therefore, the management is carefully monitoring the situation and evaluating its options during this time and expects this matter to negatively impact its operating results. However, the related financial impact and duration cannot be reasonably estimated at this time. No adjustments have been made to these financial statements because of this uncertainty.

HEALTHCHOICE OF MICHIGAN

Notes to Financial Statements (Continued)
September 30, 2020 and 2019

9) SUBSEQUENT EVENTS

The Corporation has evaluated subsequent events through March 4, 2021, the date that the accompanying financial statements were available to be issued. No subsequent event was noted that required disclosure or adjustment to the financial statements.

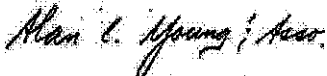
**Independent Auditor's Report on Internal Control over
Financial Reporting And on Compliance and Other
Matters Based on an Audit of Financial Statements
Performed In Accordance with Government Auditing Standards
(Continued)**

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.



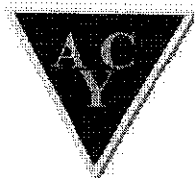
Detroit, Michigan
March 4, 2021

REQUIRED SUPPLEMENTARY INFORMATION

HEALTHCHOICE OF MICHIGAN

Budgetary Comparison Schedule Year Ended September 30, 2020

	Originally Adopted Budget	Final Amended Budget	Actual Balance	Variance Over (Under)
Operating Revenues				
Healthcare Premiums	\$ 22,003,500	\$ 22,003,500	\$21,621,653	\$ (381,847)
Miscellaneous Income	1,035	2,235	1,541	(694)
Total Operating Revenues	<u>22,004,535</u>	<u>22,005,735</u>	<u>21,623,194</u>	<u>(382,541)</u>
Operating Expenses				
Payments to Healthcare Providers	19,015,000	19,008,000	18,603,961	(404,039)
Administrator Costs	1,038,200	870,820	746,868	(123,952)
Professional Fees	400,000	100,000	47,628	(52,372)
Marketing	120,000	48,800	22,960	(25,840)
Bad Debt	-	-	2,064	2,064
Depreciation	22,500	39,500	39,605	105
Total Operating Expenses	<u>20,595,700</u>	<u>20,067,120</u>	<u>19,463,086</u>	<u>(604,034)</u>
Net Operating Income	<u>1,408,835</u>	<u>1,938,615</u>	<u>2,160,108</u>	<u>221,493</u>
Non-Operating Revenues				
Interest Income	20,000	20,000	30,613	10,613
Restitution Income	1,200	1,200	498	(702)
Total Non-Operating Revenues	<u>21,200</u>	<u>21,200</u>	<u>31,111</u>	<u>9,911</u>
Net Increase in Net Position	<u>\$ 1,430,035</u>	<u>\$ 1,959,815</u>	<u>\$ 2,191,219</u>	<u>\$ 231,404</u>



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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, 2020, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements and have issued our report thereon dated March 4, 2021.

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) to determine 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 over financial reporting that might be significant deficiencies or material weaknesses. 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 may exist that have not been identified.