

Office of Legislative Auditor General

WILLIE MAYO, CPA, CICA
AUDITOR GENERAL



208 WAYNE COUNTY BUILDING
600 RANDOLPH
DETROIT, MICHIGAN 48226
TELEPHONE: (313) 224-0924

April 3, 2009

FINAL REPORT TRANSMITTAL LETTER

Honorable Wayne County Commissioners:

Enclosed is our final copy of the Office of Legislative Auditor General's Financial Assessment – Attestation Review Report on HealthChoice of Michigan Audited Financial Report for the fiscal year ended September 30, 2008. Our report is dated March 13, 2009, DAP No. 2009-57-905. The draft report was accepted by the Audit Committee at its meeting held on Tuesday, March 24, 2009, and formally accepted by the Wayne County Commission on April 2, 2009.

We are pleased to inform you that officials from the Patient Care Management System, HealthChoice of Michigan and the Department of Health & Human Services 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:

<http://www.waynecounty.com/mygovt/comm/AuditorReport.aspx>


Willie Mayo, CPA, CICA
Auditor General

REPORT DISTRIBUTION

Department of Health & Human Services
Edith Killins, Director

Patient Care Management System (PCMS)
Michael Grundy, Executive Director - PCMS & HealthChoice of Michigan
Sharon Mattic, Supervisor of Accounting

Department of Management & Budget
Carla E. Sledge, Chief Financial Officer
Terry L. Hasse, Director, Grants and Contract Administration

HealthChoice of Michigan Board
Azzam Elder, Chairman

Wayne County Executive



RESOLUTION

No. 2009-173

By Commissioner Woronchak and Co-sponsored by Commissioner Varga

WHEREAS, the Office of the Auditor General recommends management review the actual to budget activity on a periodic basis and when variances occur request an amendment to the budget as required by state law prior to the end of the fiscal year;

Now therefore be it

RESOLVED, by the Wayne County Commission this 2nd day of April, 2009 that approval be, and is hereby, granted approving the Office of the Legislative Auditor General's Financial Assessment-Attestation Review Report on the Department of Health and Human Services, Patient Care Management System's HealthChoice of Michigan audited financial statements for the fiscal year ended September 30, 2008; the report is dated March 13, 2009; and be it further

RESOLVED, that a copy of this resolution be sent to the HealthChoice of Michigan Board.

(2009-57-905)

Wayne County Office of Legislative Auditor General (OAG)
Financial Assessment – Attestation Review Report

Report Entity Name & Type	HealthChoice of Michigan (HealthChoice); Financial Report (Audited Financial Statements and other supplementary information) for the fiscal year ended September 30, 2008. – See Attachment
DAF No.	No DAF number has been assigned because the financial statements have not been formally referred to the Commission. However, in accordance with Wayne County Ordinance #98-59, management provided the OAG with the financial statements and we have included them in our report.
Referring Department/Agency	Patient Care Management Systems (PCMS), Department of Health & Human Services
Entity Purpose and Type	HealthChoice of Michigan was formed under the State of Michigan's Municipal Health Facilities Corporations Act 230 of 1987, and was incorporated January 30, 1992. HealthChoice is a separate legal entity and is permitted to contract in its own name, sue, or be sued. However, Wayne County is able to impose its will on HealthChoice and control its actions within the constraints of its articles and by-laws. HealthChoice board members are county elected or county appointed officials. HealthChoice is treated as a non-major discretely presented component unit that is legally separate from the county, but for which the county is financially accountable. HealthChoice established a managed care (capitated) program for the uninsured and underinsured residents of Wayne County. This business structure provides a measure of protection to the county from litigation and/or deficits incurred due to the services provided. HealthChoice benefits both residents of Wayne County that have no health insurance and employers in Wayne County that are unable to provide health care benefits to their employees. HealthChoice started its operations in May 1993 and now provides a full range of quality, affordable programs. Additionally, under the Three-Share Program for businesses, the employer and employee each contribute one-third of the cost in the form of premiums; Health Choice covers the other third. Family members can be covered for an additional premium.
Organizational or Governance Structure	A Board of Trustees provides direction for HealthChoice. The Board is composed of seven individuals, with three positions appointed by the Wayne County Commission and four positions subject to appointment by the Wayne County Chief Executive Officer. All are county elected or appointed officials. The Board appoints an Executive Director to administer the program and carry out its objectives.
Entity's Funding Sources	HealthChoice receives its primary funding through a contractual relationship with an outside independent nonprofit corporation, Metro HealthCare Services Inc. (MHS). HealthChoice receives subsidy funding from Metro Healthcare, member premiums, and interest income. It does not receive any direct funding from the county, but does receive in-kind administrative services. Metro HealthCare Services Inc. receives its funding through Oakwood Hospital, a

Wayne County Office of Legislative Auditor General (OAG)
Financial Assessment – Attestation Review Report

Entity's Funding Sources (cont'd)	disproportionate share hospital that (serves a significant number of low income individuals) which receives funding from the State of Michigan. HealthChoice of Michigan Revenue Summary Fiscal Year 2008 <table><tr><th>Operating Revenue</th><th>FY 2008</th><th>FY 2007</th><th>Variance</th></tr><tr><td>Premium Income</td><td>\$ 7,510,851</td><td>\$ 6,713,266</td><td>\$ 797,585</td></tr><tr><td>Subsidy Income</td><td>5,251,984</td><td>4,228,446</td><td>1,023,538</td></tr><tr><td>Pharmacy Rebate</td><td>49,983</td><td>99,795</td><td>(49,812)</td></tr><tr><td>Misc. Income</td><td>11,127</td><td>365</td><td>10,762</td></tr><tr><td>Total Operating Revenue</td><td>\$12,823,945</td><td>\$11,041,872</td><td>\$ 1,782,073</td></tr></table>	Operating Revenue	FY 2008	FY 2007	Variance	Premium Income	\$ 7,510,851	\$ 6,713,266	\$ 797,585	Subsidy Income	5,251,984	4,228,446	1,023,538	Pharmacy Rebate	49,983	99,795	(49,812)	Misc. Income	11,127	365	10,762	Total Operating Revenue	\$12,823,945	\$11,041,872	\$ 1,782,073
Operating Revenue	FY 2008	FY 2007	Variance																						
Premium Income	\$ 7,510,851	\$ 6,713,266	\$ 797,585																						
Subsidy Income	5,251,984	4,228,446	1,023,538																						
Pharmacy Rebate	49,983	99,795	(49,812)																						
Misc. Income	11,127	365	10,762																						
Total Operating Revenue	\$12,823,945	\$11,041,872	\$ 1,782,073																						
Summary of Intergovernmental Agreements with the County	Wayne County and HealthChoice have approved and executed intergovernmental agreements that authorize PCMS to administer the HealthChoice programs, and require HealthChoice to reimburse the county for services rendered.																								
Type of Report	Annual audited financial statements including the independent auditors' report prepared by Alan C. Young & Associates, P.C., Certified Public Accountants, Detroit, Michigan. The report also includes the auditor's report on Internal Control over Financial Reporting and on Compliance and Other Matters.																								
Report Period	October 1, 2007 - September 30, 2008																								
Report Purpose	To render an opinion on the financial statements of HealthChoice for the fiscal year ended September 30, 2008.																								
Type of Audit Report Opinion	Unqualified (clean) Opinion.																								
Report's Impact on the County's Comprehensive Annual Financial Report	The financial statements of HealthChoice were incorporated in the county's comprehensive annual financial report (CAFR) for the fiscal year ended September 30, 2008. HealthChoice of Michigan is a discretely presented component unit that is a legally separate entity for which the county is financially accountable.																								
OAG ASSESSMENT	Our review of HealthChoice's audited financial statements and independent auditor's report for the period ended September 30, 2008, was conducted in accordance with attestation standards established by the Comptroller General of the United States (Government Auditing Standards) and the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination or audit, the objective of which is the expression of an opinion on the audited financial statements. Accordingly, we do not express such an opinion.																								

Wayne County Office of Legislative Auditor General (OAG)
Financial Assessment – Attestation Review Report

OAG ASSESSMENT (cont'd)

Based on the work performed, nothing came to our attention that caused us to believe the audited financial statements and independent auditor's report of HealthChoice are not presented in conformity with generally accepted accounting principles and statutory requirements.

We conclude that the audited financial statements and independent auditor's report appear complete and thorough. Below we have summarized our assessment for consideration by the Commission:

- Total assets increased by \$125,873, or 2.4 percent, in 2008. This increase is primarily due to an increase in enrollment in the HealthChoice Programs. Total liabilities also decreased by \$205,214, or 5.8 percent, in 2008. Compared to FY 2007, accounts payable decreased by \$291,017, or 9.7 percent, because of increased efficiency and more timely payments to the vendors and providers. Total net assets for 2008 totaled \$2.08 million, a \$333,652 increase, or 19 percent, compared to \$1.75 million from the previous year.
- Total operating revenue increased by \$1.78 million, or 16 percent, and total operating expenses increased by \$1.92 million, or 18 percent, in 2008. There was a decrease of approximately \$135,500 in net operating income as a result of increased provider payments. Overall, there was a 19 percent increase in net assets, due to an increase in enrollment in the HealthChoice program.
- HealthChoice's FY 2008 final budget was not amended to reflect actual activity as required by the State of Michigan Law. Below is a summary of variances in budget to actual activity for HealthChoice:

Wayne County Office of Legislative Auditor General (OAG)
Financial Assessment – Attestation Review Report

OAG ASSESSMENT (cont'd)	HealthChoice of Michigan Budget/Actual Comparison Schedule Fiscal Year 2008			
	Account	Final Amended Budget	Actual Balance	Variance Over/ (Under)
	Operating Revenues:			
	HealthCare Premiums/Subsidies	\$13,094,586	\$12,812,818	(\$281,768)
	Miscellaneous	0	11,127	11,127
	Total Operating Revenue	13,094,586	12,823,945	(270,641)
	Operating Expense:			
	Payments to HealthCare Providers	12,059,438	12,084,442	25,004
	Administrator Costs	249,384	307,311	57,927
	Professional Fees	16,065	8,797	(7,268)
	Marketing	130,700	135,546	4,846
	Communications	0	4,319	4,319
	Depreciation	0	2,007	2,007
	Total Operating Expense	12,455,587	12,542,422	86,835
	Net operating Income (Loss)	638,999	281,523	(357,476)
	Non-Operating Revenues (Expenses)			
	Interest Income	0	52,979	52,979
	Interest Expenses	0	(850)	(850)
	Total Non-Operating Revenues	0	52,129	52,129
	Net Increase (Decrease) in Net Assets	\$638,999	\$333,652	(\$305,347)
	Recommendation: We recommend management review the actual to budget activity on a periodic basis. When variances occur request an amendment to the budget as required by state law prior to the end of the fiscal year.			
STATUS OF PRIOR YEAR'S RECOMMENDATIONS	There were no prior year recommendations.			
VIEWS OF RESPONSIBLE OFFICIALS	We provided our financial assessment – attestation review report to the Patient Care Management System. They indicated they generally agreed with our overall assessment.			

Wayne County Office of Legislative Auditor General (OAG)
Financial Assessment – Attestation Review Report

OAG OVERALL RECOMMENDATION	It is our recommendation that the HealthChoice of Michigan audited financial statements for the fiscal year ended September 30, 2008, be approved and forwarded to the Wayne County Commission for acceptance and approval.
This report is intended solely for the information and use of HealthChoice of Michigan and the Wayne County Commission and is not intended to be and should not be used by another other than these specified parties. This restriction is not intended to limit the distribution of the report, which is a matter of public record.  Willie Mayo, CPA, CICA Auditor General	

ATTACHMENT

**FINANCIAL REPORT FOR
HEALTHCHOICE OF MICHIGAN
YEAR ENDED SEPTEMBER 30, 2008
(WITH COMBINED COMPARATIVE TOTALS FOR 2007)**

**HEALTHCHOICE OF MICHIGAN
FINANCIAL REPORT FOR THE
YEAR ENDED SEPTEMBER 30, 2008
(WITH COMBINED COMPARATIVE TOTALS FOR 2007)**

HEALTHCHOICE OF MICHIGAN

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Alan C.
Young & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

7310 Woodward Ave., Ste. 740
Detroit, MI 48202

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

INDEPENDENT AUDITORS' REPORT

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

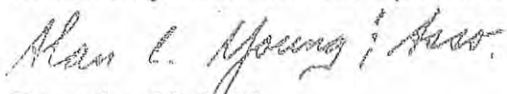
We have audited the accompanying statements of net assets of HealthChoice of Michigan ("the Corporation"), (a component unit of County of Wayne, Michigan) as of September 30, 2008 and 2007 and the related statements of revenue, expenses, and changes in fund net assets and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Corporation at September 30, 2008 and 2007 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis and the budgetary comparison schedule (identified in the table of contents) are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the required supplementary information and, accordingly, we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 22, 2008 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 grants. 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* and should be read in conjunction with this report in considering the results of our audit.


December 22, 2008

**HEALTHCHOICE OF MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2008**

This section of the annual report of HealthChoice of Michigan (the "Corporation") presents management's discussion and analysis of the Corporation's financial performance during the fiscal year that ended on September 30, 2008.

Please read it in conjunction with the Corporation's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- a) The Corporation's net assets increased by \$333,652 or 19 percent, from \$1,742,441 as of September 30, 2007 to \$2,076,093 as of September 30, 2008. Net assets are held to meet future payments to providers.
- b) The Corporation's basic benefits offered companies are funded by a combination of premiums and subsidy contributions from a non-profit Michigan based fiscal intermediary that channels funding to healthcare entities that provide care for underinsured and uninsured patients in Wayne County (the "County"). The subsidies are funded via participating hospitals, by way of Federal, State of Michigan (the "State"), and County matching dollars.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report contains the Corporation's financial statements, which consist of the statements of net assets, statements of revenue, expenses, and changes in fund net assets, and statements of cash flows (presented on pages 6 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. The statements of net assets include all of the Corporation's assets and liabilities. All of the current year's revenue and expenses are accounted for in the statements of revenue, expenses and changes in fund net assets, regardless of when cash is received or paid.

These financial statements report the Corporation's net assets and how they have changed. Net assets represent the difference between the Corporation's assets and liabilities, and they represent one way to measure the Corporation's financial health, or position. Over time, increases or decreases in the Corporation's net assets are an indicator of whether its financial health 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.

HEALTHCHOICE OF MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2008
(Continued)

FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE

Table 1 reflects the condensed statements of net assets as of September 30, 2008 and 2007:

Table 1

Statement of Net Assets
September 30, 2008 and 2007
(in thousands of dollars)

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and Cash Equivalents	\$5,036.6	\$5,267.1
Other Current Assets	390.0	19.6
Fixed Assets	6.0	20.1
Total Assets	<u>5,432.6</u>	<u>5,306.8</u>
LIABILITIES		
Accounts Payable	2,710.3	3,001.3
Deferred Revenue	640.4	548.4
Long-term Liabilities	5.8	14.6
Total Liabilities	<u>3,356.5</u>	<u>3,564.3</u>
NET ASSETS		
Investment in Capital Assets-Net of Related Debt	0.2	5.5
Unrestricted	2,075.9	1,737.0
Total Net Assets	<u>\$2,076.1</u>	<u>\$1,742.5</u>

The Corporation's total assets at September 30, 2008 were approximately \$5.433 million and were comprised mostly of cash and money market funds. This is an increase in assets, from 2007, of approximately 2.4%. This increase is primarily due to amounts receivable from Metro Healthcare, at year end.

Liabilities were approximately \$3.357 million as of September 30, 2008, a decrease from the prior year of approximately \$207,800. The liabilities consisted mostly (approx. 80%) of accounts payable for the provider reserve. The Corporation received \$640,423 of advance premiums relating to the healthcare program from participating businesses, which is treated as Deferred Revenue, a liability, for the current year.

**HEALTHCHOICE OF MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2008
(Continued)**

FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE

Table 2 reflects the condensed statements of revenue, expenses, and changes in fund net assets for the years ended September 30, 2008 and 2007:

Table 2

**Statement of Revenue, Expenses, and Changes in Fund Net Assets
September 30, 2008 and 2007
(in thousands of dollars)**

	<u>2008</u>	<u>2007</u>
Operating Revenue	\$12,823.9	\$11,041.9
Operating Expenses	<u>12,542.4</u>	<u>10,624.8</u>
Net Operating Income (Loss)	281.5	417.1
Non-Operating Revenue	<u>52.1</u>	<u>70.2</u>
Net Increase (Decrease) in Net Assets	333.6	487.3
Net Assets, Beginning of Year	<u>1,742.5</u>	<u>1,255.2</u>
Net Assets, End of Year	<u><u>\$2,076.1</u></u>	<u><u>\$1,742.5</u></u>

Operating revenue increased by approximately 16.1 percent from the year ended September 30, 2007 to the year ended September 30, 2008, with an approximately 18% increase in operating expenses. There was a decrease of approximately \$135,500 in net operating revenue as a result of increased provider payments. There was an overall 19% increase in net assets.

ECONOMIC FACTORS

During fiscal year 2007/2008, HealthChoice continued to maintain a positive financial position. During the latter portion of 2008 - as in previous years -- the State temporarily suspended enrollment in the Adult Benefit Waiver program, resulting in an increase in Basicare's enrollment (Basicare is a HealthChoice-Sponsored Program). It is important to remember that economic conditions have been dismal and the State of Michigan has experienced an extra burden in the area of manufacturing losses as well.

HEALTHCHOICE OF MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2008
(Continued)

FINANCIAL CONTACT

This financial report is designed to present its users with a general overview of the Corporation's finances and to demonstrate the Corporation's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Director of Finance, Health Choice of Michigan, 640 Temple, Suite 370, Detroit, Michigan 48201.

HEALTHCHOICE OF MICHIGAN
STATEMENTS OF NET ASSETS
YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents (Note 3)	\$5,036,627	\$5,267,097
Accounts Receivable	387,075	16,666
Prepaid & Others	2,922	2,922
Total Current Assets	<u>5,426,624</u>	<u>5,286,685</u>
Fixed Assets (Net of Depreciation)(Note 6)	<u>6,022</u>	<u>20,088</u>
Total Assets	<u>5,432,646</u>	<u>5,306,773</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable - Vendors	29,801	51,281
Accounts Payable - Providers	2,680,498	2,950,035
Deferred Revenue (Note 4)	640,423	548,427
Current Portion of Capital Lease Debt (Note 6)	2,566	8,759
Total Current Liabilities	<u>3,353,288</u>	<u>3,558,502</u>
Long Term Liabilities:		
Long Term Portion of Capital Lease Debt (Note 6)	3,265	5,830
NET ASSETS		
Investment in Capital Assets-Net of Related Debt	192	5,499
Unrestricted	<u>2,075,901</u>	<u>1,736,942</u>
Total Net Assets	<u>\$2,076,093</u>	<u>\$1,742,441</u>

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

**HEALTHCHOICE OF MICHIGAN
STATEMENTS OF REVENUE, EXPENSES,
AND CHANGES IN FUND NET ASSETS
YEARS ENDED SEPTEMBER 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
Operating Revenue:		
Healthcare Premiums/Subsidies	\$12,812,818	\$11,041,507
Miscellaneous Income	<u>11,127</u>	<u>365</u>
Total Operating Revenue	<u>12,823,945</u>	<u>11,041,872</u>
Operating Expenses:		
Payments to Healthcare Providers	12,084,442	10,231,347
Administrator Costs	307,311	300,739
Professional Fees	8,797	10,697
Marketing	135,546	69,770
Communications	4,319	6,233
Depreciation	<u>2,007</u>	<u>6,027</u>
Total Operating Expenses	<u>12,542,422</u>	<u>10,624,813</u>
Net Operating Income (Loss)	<u>281,523</u>	<u>417,059</u>
Non-Operating Revenue/(Expenses):		
Investment Income	52,979	71,621
Interest Expenses	<u>(850)</u>	<u>(1,457)</u>
Total Non-Operating Revenues	<u>52,129</u>	<u>70,164</u>
Net Increase (Decrease) in Net Assets	333,652	487,223
Net Assets, Beginning of Year	<u>1,742,441</u>	<u>1,255,218</u>
Net Assets, End of Year	<u><u>\$2,076,093</u></u>	<u><u>\$1,742,441</u></u>

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

HEALTHCHOICE OF MICHIGAN
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Cash Flows from Operating Activities:		
Cash Received from Healthcare Providers and Third-Party Administrators	\$12,545,533	\$11,072,629
Cash Paid to Healthcare Providers	(12,353,979)	(8,554,537)
Cash Paid to Suppliers and Vendors	(477,454)	(429,301)
Net Cash Provided by (Used in) Operating Activities	<u>(285,900)</u>	<u>2,088,791</u>
Cash Flows from Financing Activity:		
(Acquisition)/Disposition of Capital Assets	<u>12,059</u>	<u>(10,036)</u>
Net Cash Provided by (Used in) Financing Activity	<u>12,059</u>	<u>(10,036)</u>
Cash Flows from Investing Activities:		
Interest Paid	(850)	(1,457)
Increase/(Decrease) In Long Term Debt	(8,758)	1,072
Cash Received from Investment Income	<u>52,979</u>	<u>71,621</u>
Net Cash Provided by (Used in) Investing Activities	<u>43,371</u>	<u>71,236</u>
Net Increase (Decrease) in Cash & Cash Equivalents	<u>(230,470)</u>	<u>2,149,991</u>
Cash & Cash Equivalents Balance, Beginning of Year	<u>5,267,097</u>	<u>3,117,106</u>
Cash & Cash Equivalents Balance, End of Year	<u><u>\$5,036,627</u></u>	<u><u>\$5,267,097</u></u>

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

HEALTHCHOICE OF MICHIGAN
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2007 AND 2006
(Continued)

	<u>2008</u>	<u>2007</u>
Reconciliation of Net Operating Income (Loss) to Cash Flows from Operating Activities:		
Net Operating Income (Loss)	\$281,523	\$417,059
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Depreciation	2,007	6,027
Change in Prepaid Expenses	0	5,754
Change in Accounts Receivable	(370,409)	(16,666)
Change in Accounts Payable - Vendors	(21,480)	(47,616)
Change in Deferred Revenue	91,996	47,423
Change in Accounts Payable - Providers	<u>(269,537)</u>	<u>1,676,810</u>
Net Cash Provided by (Used in) Operating Activities	<u><u>(\$285,900)</u></u>	<u><u>\$2,088,791</u></u>

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

**HEALTHCHOICE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2008 AND 2007**

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 county businesses that are unable to provide health care benefits to these employees. The Corporation started its operation in May, 1999. Employers, employees, and Metro Health Care Services, Inc. (MHCS), a philanthropic Michigan non-profit corporation, fund the program equally. The Corporation administers the program in conjunction with the following organizations:

- a) Metro Health Care Services, Inc. (MHCS), which administers the transfer of monthly subsidies to the corporation and also provided initial funding to the corporation.
- b) Patient Care Management System, a unit of the County, which provides the personnel to manage the program.

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. The Corporation has elected to apply Financial Accounting Standards Board Statements and interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

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.

HEALTHCHOICE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2008 AND 2007
(Continued)

2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

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 investments. At year end, the Corporation deposit balance of \$4,955,253 was uninsured and uncollateralized. 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. The custodial risk for investments will be minimized by limiting investments to the types of securities allowed by the Corporation's investment policy and by pre-qualifying the financial institutions.

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.

HEALTHCHOICE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2008 AND 2007
(Continued)

3) CASH AND INVESTMENTS (Continued)

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.

4) DEFERRED REVENUE

Deferred 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. The deferred revenue for the year ended September 30, 2008 and 2007 are \$640,423 and \$548,427, respectively.

5) DONATED SERVICES

No amounts have been reflected in the financial statements for donated services; however, some employees of the County have donated their time on behalf of the Corporation's program and supporting services.

6) CAPITAL LEASES

The Corporation leases certain equipment under capital leases. The economic substance of these leases is that the Corporation is financing the acquisition of the equipment through the leases and accordingly, the equipment is recorded as assets and the leases are recorded as liabilities.

The following is an analysis of the leased assets:

	<u>2008</u>	<u>2007</u>
Equipment under Capital Lease	\$10,036	\$30,135
Less: Accumulated Depreciation	<u>4,014</u>	<u>10,047</u>
Total	<u><u>\$6,022</u></u>	<u><u>\$20,088</u></u>

HEALTHCHOICE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2008 AND 2007
(Continued)

6) CAPITAL LEASES (Continued)

Future minimum lease payments under capital leases as of September 30, 2008 for each of the remaining years and in the aggregate are as follows:

Year Ended September 30,

2009	\$2,940
2010	2,940
2011	490
	6,370
Less: Amount Representing Interest	539
	<u>\$5,831</u>

7) RISK MANAGEMENT

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 management's opinion, these items are sufficient to cover the Corporation's risk.

8) LITIGATION

The Corporation is involved in various litigation on account of various claims relating to the service providers, the outcome of which, are unknown as of the date of this report.

9) ACCOUNTS PAYABLE - PROVIDERS

The Corporation received \$1,500,000 from Metro HealthCare Services, Inc. to pay outstanding claims, which were incurred by Corporation subscribers and not paid by a previous healthcare provider. The Corporation paid \$800,000 during the year to settle old claims and the remaining \$700,000 is shown as accounts payable-providers in the accompanying financial statements.

10) OPERATING LEASES

The Corporation has several operating leases, primarily for various forms of equipment, that expires at various dates through February 2012. Rental expenses of those leases consisted of \$10,588 for the year ended September 30, 2008.

HEALTHCHOICE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2008 AND 2007
(Continued)

10) OPERATING LEASES (Continued)

Future minimum lease payments under operating leases that have remaining terms in excess of one year as of September 30, 2008 are:

<u>Year Ending</u>	
2009	\$15,417
2010	15,417
2011	11,691
2012	<u>3,982</u>
Total	<u>\$46,507</u>

**Alan C.
Young & Associates, P.C.**
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

7310 Woodward Ave., Suite 740
Detroit, MI 48202-3165

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

**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 Directors of
HealthChoice of Michigan
Detroit, Michigan

We have audited the financial statements of HealthChoice of Michigan (the Corporation) as of and for the year ended September 30, 2008, and have issued our report thereon dated December 22, 2008. 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.

Internal Control over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Corporation's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Corporation's financial statements that is more than inconsequential will not be prevented or detected by the Corporation's internal control.

We noted certain control deficiencies that we have reported to the management of the Corporation in a separate letter dated December 22, 2008.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Corporation's internal control.

**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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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*.

We noted certain matters that we reported to management of the Corporation in a separate letter dated December 22, 2008.

This report is intended solely for the information and use of management of the Corporation and the Board of Trustees and is not intended to be and should not be used by anyone other than those specified parties.

Alan L. Young, Assoc.

December 22, 2008

REQUIRED SUPPLEMENTARY INFORMATION

**HEALTHCHOICE OF MICHIGAN
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2008**

	Originally Adopted Budget	Final Amended Budget	Actual Balance	Variance Favorable (Unfavorable)
Operating Revenues:				
Healthcare Premiums/Subsidies	\$13,094,586	\$13,094,586	\$12,812,818	(\$281,768)
Miscellaneous Income	0	0	11,127	11,127
Total Operating Revenues	<u>13,094,586</u>	<u>13,094,586</u>	<u>12,823,945</u>	<u>(270,641)</u>
Operating Expenses:				
Payments to Healthcare Providers	12,059,438	12,059,438	12,084,442	(25,004)
Administrator Costs	249,384	249,384	307,311	(57,927)
Professional Fees	16,065	16,065	8,797	7,268
Marketing	130,700	130,700	135,546	(4,846)
Communications	0	0	4,319	(4,319)
Depreciation	0	0	2,007	(2,007)
Total Operating Expenses	<u>12,455,587</u>	<u>12,455,587</u>	<u>12,542,422</u>	<u>(86,835)</u>
Net Operating Income (Loss)	<u>638,999</u>	<u>638,999</u>	<u>281,523</u>	<u>(357,476)</u>
Non-Operating Revenues (Expenses):				
Interest Income	0	0	52,979	52,979
Interest Expenses	0	0	(850)	(850)
Total Non-Operating Revenues	<u>0</u>	<u>0</u>	<u>52,129</u>	<u>52,129</u>
Net Increase (Decrease) in Net Assets	<u>\$638,999</u>	<u>\$638,999</u>	<u>\$333,652</u>	<u>(\$305,347)</u>

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