

Rural Health Redesign Center Authority (Component Unit of the Commonwealth of Pennsylvania)

Independent Auditor's Report and Financial Statements

June 30, 2021



Rural Health Redesign Center Authority
(Component Unit of the Commonwealth of Pennsylvania)
June 30, 2021

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Independent Auditor's Report

Board of Directors
Rural Health Redesign Center Authority
Harrisburg, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the Rural Health Redesign Center Authority (Authority), a component unit of the Commonwealth of Pennsylvania as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in 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 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 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 Authority'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2021 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed 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 also have issued our report dated December 15, 2021, on our consideration of the Authority'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 the Authority'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 the Authority's internal control over financial reporting and compliance.

BKD, LLP

Pittsburgh, Pennsylvania
December 15, 2021

Rural Health Redesign Center Authority
(Component Unit of the Commonwealth of Pennsylvania)
Management’s Discussion and Analysis
Year Ended June 30, 2021

Introduction

This management’s discussion and analysis of the financial performance of Rural Health Redesign Center Authority (Authority) provides an overview of the Authority’s financial activities for the year ended June 30, 2021. It should be read in conjunction with the accompanying financial statements of the Authority.

Financial Highlights

- The Authority initiated operations during the fiscal year ended June 30, 2021 which included obtaining a \$2,000,000 working capital loan from the Commonwealth of Pennsylvania and contracting with various consulting providers including:
 1. Mathematica – Operational and Administrative Support
 2. RJW Enterprises – Contract Staffing Services
 3. Rural Health Value – Operational Support
- The Authority reported a loss from operations for the fiscal year ended June 30, 2021. The Authority is designed to break even in operations after the initial use of working capital, based on all expenses being funded by corresponding grant and contribution revenue. During the fiscal year ended June 30, 2021, the Authority incurred initial consulting costs that were funded through the working capital loan, and totaled \$966,193
- Major funding sources during the fiscal year ended June 30, 2021 primarily included The Centers for Medicare and Medicaid Innovation (CMMI) and the Rural Health Redesign Center Organization (RHRCO)

Using This Annual Report

The Authority’s financial statements consist of three statements—a balance sheet, a statement of revenues, expenses and changes in net position and a statement of cash flows. These statements provide information about the activities of the Authority. The Authority is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Position

The balance sheet and the statement of revenues, expenses and changes in net position report information about the Authority’s resources and its activities. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year’s revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority’s net position and changes in them. The Authority’s total net position—the difference between assets and liabilities—is one measure of the Authority’s financial health or financial position.

Rural Health Redesign Center Authority
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The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash and cash equivalents during the reporting period.

The Authority's Net Position

The Authority's net position is the difference between its assets and liabilities reported in the balance sheet, as shown in Table 1.

Table 1: Assets, Liabilities and Net Position (Deficit)

	2021
Current Assets	
Cash	\$ 19,785
Grants receivable	285,683
Prepaid expenses	8,423
Total current assets	313,891
 Funds Held at Pennsylvania Treasury	
	833,807
Total assets	\$ 1,147,698
 Current Liabilities	
Current maturities of long-term debt	\$ 400,000
Accounts payable	149,348
Accrued expenses	136,648
Total current liabilities	685,996
 Long-Term Debt	
Total liabilities	1,400,000
	2,085,996
 Net Position (Deficit)	
Unrestricted (deficit)	(938,298)
Total liabilities and net position (deficit)	\$ 1,147,698

The most significant item in the Authority's balance sheet as of June 30, 2021, was the issuance of debt through a \$2 million loan from the Commonwealth of Pennsylvania. In addition, as part of the initial operating agreement, the Pennsylvania Treasury holds a substantial amount of the Authority's unused funds which amounted to \$833,807 as of June 30, 2021.

Rural Health Redesign Center Authority
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Management’s Discussion and Analysis
Year Ended June 30, 2021

Operating Results and Changes in the Authority’s Net Position

In 2021, the Authority’s operating performance and change in net position was determined as shown in Table 2.

Table 2: Operating Results and Changes in Net Position

	2021
Operating Revenues	
Governmental grants and other contribution income	\$ 1,709,305
Operating Expenses	
Salaries and wages	261,761
Payroll taxes and employee benefits	57,725
Consulting services and professional fees	2,323,351
General and administrative costs	4,766
Total operating expenses	2,647,603
Operating loss and decrease in net position (deficit)	\$ (938,298)

Operating Performance

The overall change in the Authority’s net position is its operating income or loss—generally, the difference between governmental grants and other contributions received and the expenses incurred for ongoing operations. In 2021, the Authority reported a loss for operating performance. After the initial use of working capital totaling \$966,193, the Authority experienced a small operating gain thereafter. This is consistent with the Authority’s budgetary expectation, as the Authority was formed in the fiscal year ended June 30, 2021, and is operated primarily to administer the PA Rural Health Model. In future reporting periods, the Authority expects any operating gain or loss to be based on timing of expenses and reimbursement.

The Authority’s Cash Flows

Changes in the Authority’s cash flows are consistent with its operating performance discussed earlier.

Debt Administration

The Authority had \$1,800,000 in debt outstanding at June 30, 2021. See *Note 2* for a summary of the Authority’s long-term obligations. The Authority’s formal debt issuances are subject to limitations imposed by state law.

Rural Health Redesign Center Authority
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Management's Discussion and Analysis
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Other Economic Factors

The Authority may be impacted by outside factors in the future. Some of these factors may include:

- General economic changes, which may cause operations to significantly increase or decrease
- Federal and state government budget/regulatory changes, which could change the funding and extent of operations
- General factors related to the COVID-19 pandemic that can cause business disruptions

The Authority intends to meet these challenges through timely response as necessary and appropriate management of operational performance.

Contacting the Authority's Financial Management

This financial report is designed to provide its users with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Authority Business Administration by emailing c-gzegiest@pa.gov.

Rural Health Redesign Center Authority
(Component Unit of the Commonwealth of Pennsylvania)
Balance Sheet
June 30, 2021

	2021
Assets	
Current Assets	
Cash	\$ 19,785
Grants receivable	285,683
Prepaid expenses	8,423
Total current assets	313,891
Funds Held at Pennsylvania Treasury	833,807
Total assets	\$ 1,147,698
Liabilities and Net Position (Deficit)	
Current Liabilities	
Current maturities of long-term debt	\$ 400,000
Accounts payable	149,348
Accrued expenses	136,648
Total current liabilities	685,996
Long-Term Debt	1,400,000
Total liabilities	2,085,996
Net Position (Deficit)	
Unrestricted (deficit)	(938,298)
Total liabilities and net position (deficit)	\$ 1,147,698

Rural Health Redesign Center Authority
(Component Unit of the Commonwealth of Pennsylvania)
Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2021

	2021
Operating Revenues	
Governmental grants and other contribution income	\$ 1,709,305
Operating Expenses	
Salaries and wages	261,761
Payroll taxes and employee benefits	57,725
Consulting services and professional fees	2,323,351
General and administrative costs	4,766
Total operating expenses	2,647,603
Operating loss and decrease in net position	(938,298)
Net Position, Beginning of Year	-
Net Position (Deficit), End of Year	\$ (938,298)

Rural Health Redesign Center Authority
(Component Unit of the Commonwealth of Pennsylvania)
Statement of Cash Flows
Year Ended June 30, 2021

	2021
Cash Flows From Operating Activities	
Grants and contributions received	\$ 1,423,622
Consulting services and professional fees	(2,046,038)
Personnel costs	(314,554)
General and administrative costs	(9,438)
Net cash used in operating activities	(946,408)
Cash Flows From Noncapital Financing Activities	
Proceeds from issuance of long-term debt	2,000,000
Principal paid on long-term debt	(200,000)
Net cash provided by noncapital financing activities	1,800,000
Cash Flows From Investing Activities	
Net deposits to the PA Treasury	(833,807)
Net cash used in investing activities	(833,807)
Increase in Cash	19,785
Cash, Beginning of Year	-
Cash, End of Year	\$ 19,785
Reconciliation of Net Operating Loss to Net Cash Used in Operating Activities	
Operating loss	\$ (938,298)
Changes in assets and liabilities	
Grants receivable	(285,683)
Prepaid expenses	(8,423)
Accounts payable	149,348
Accrued expenses	136,648
Net cash used in operating activities	\$ (946,408)

Rural Health Redesign Center Authority
(Component Unit of the Commonwealth of Pennsylvania)
Notes to Financial Statements
June 30, 2021

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Pennsylvania Act 108 of 2019 established the Rural Health Redesign Center Authority (Authority) and the Pennsylvania Rural Health Redesign Center Fund. The Authority is an independent entity that administers the PA Rural Health Model (PAHRM), including recruiting hospitals for participation and approving global budgets. The purpose of this act to protect and promote access by the residents of this Commonwealth to high-quality health care in rural communities by encouraging innovation in health care delivery. This legislation was signed into law on November 26, 2019 by Governor Tom Wolf. The Authority is a component unit of the Commonwealth of Pennsylvania.

The Authority is supported in part by the Rural Health Redesign Organization (RHRCO), which was established in 2020 to serve as a supporting organization to the Authority. The RHRCO is a nonprofit 501(c)(3) corporation structured to support fundraising efforts for the long-term sustainability of the Authority and the PAHRM.

Basis of Accounting and Presentation

The financial statements of the Authority have been prepared on the accrual basis of accounting. Revenues, expenses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place and are included in operating revenues and expenses.

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses and other changes in net position during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. As of June 30, 2021, there were no cash equivalents. At times, these amounts may exceed federally insured limits. As of June 30, 2021, the Authority's cash accounts did not exceed federally insured limits.

Rural Health Redesign Center Authority
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Funds Held at Pennsylvania Treasury (RHRCA Fund)

Funds held at Pennsylvania Treasury (RHRCA Fund) include undistributed amounts from issuance of debt held by the Pennsylvania Treasury until such time as the Authority solicits reimbursement for operational expenses, or other approved uses. These funds are held by the Pennsylvania Treasury as custodian but remain an asset of the Authority, accordingly. Consistent with the treatment of associated long-term debt with the Commonwealth of Pennsylvania, there is no interest earned on funds held by the Pennsylvania Treasury.

The activity within the fund during the year ended June 30, 2021, is as follows:

	Beginning Balance	Loan Proceeds	2021 Operating Expense	Loan Payments	Final Balance
RHRCA Fund (Cash)	\$ -	\$ 2,000,000	\$ (966,193)	\$ (200,000)	\$ 833,807

Grants Receivable

Grants receivable reflect the outstanding amount of consideration to which the Authority expects to be entitled as reimbursement for providing administrative services to the PA Rural Health Model. These amounts are due from governmental programs, such as the Center for Medicare & Medicaid Innovation and are considered governmental grants and other contribution income. Amounts are collected through the PA Treasury and are remitted to the Authority upon approval.

Compensated Absences

The Authority’s policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash.

Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized.

Compensated absence liabilities are computed during the year using the regular pay and termination pay rates in effect, but are not eligible to be carried forward into future years and therefore there is no liability estimated as of June 30, 2021.

Rural Health Redesign Center Authority
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Notes to Financial Statements
June 30, 2021

Risk Management

The Authority is exposed to various risks of loss from torts; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage for the year ended June 30, 2021.

Net Position

Net position of the Authority is classified in four components on its balance sheets.

- Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets.
- Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Authority, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings
- Restricted nonexpendable net position consists of noncapital assets that are required to be maintained in perpetuity as specified by parties external to the Authority, such as permanent endowments
- Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position

Operating Activities

The Authority defines operating activities, as reported on the statement of revenues, expenses, and changes in net position, as those generally result from exchange transactions, such as payments made for goods and services received. Governmental grants and other contribution income are also classified as operating revenue because fundraising activities support the Authority's primary operating purpose.

Grants and Other Contribution Revenue

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the Authority is required to record operating and capital pledges as revenue when all eligibility requirements have been met. Grants and other contribution revenue recorded for the year ended June 30, 2021, included \$1,614,724 from CMMI and \$94,581 from RHRCO.

Rural Health Redesign Center Authority
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Notes to Financial Statements
June 30, 2021

Consulting Services and Professional Fees

The Authority outsources a large portion of the administration of the PA Rural Health Model to selected contractors.

Income Taxes

As a governmental organization the Authority is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

Note 2: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Authority's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Pennsylvania; bonds of any city, county, school district or special road district of the state of Pennsylvania; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

At June 30, 2021, there was no balance exposed to custodial credit risk.

Note 3: Long-Term Debt

The following is a summary of long-term debt transactions for the Authority for the year ended June 30, 2021:

	Beginning Balance	2021		Ending Balance	Current Portion
		Borrowings	Payments		
Note payable	\$ -	\$ 2,000,000	\$ 200,000	\$ 1,800,000	\$ 400,000

Rural Health Redesign Center Authority
(Component Unit of the Commonwealth of Pennsylvania)
Notes to Financial Statements
June 30, 2021

During the fiscal year ended June 30, 2021, the Authority borrowed through a note payable with the Commonwealth of Pennsylvania, the amount of \$2,000,000. The Authority's obligations under this agreement include total cumulative repayment on or before June 30, 2024. The note is uncollateralized and based on intergovernmental agreement has no interest rate associated therein.

The debt service requirements as of June 30, 2021, are as follows:

Year Ending June 30,	Minimum Debt Service
2022	\$ 400,000
2023	600,000
2024	800,000
	\$ 1,800,000

Note 4: Related Party Transactions

The Authority and Rural Health Redesign Center Organization are related parties. The Rural Health Redesign Center Organization (RHRCO) was established in 2020 to serve as a supporting organization to the Authority. RHRCO is a nonprofit 501(c)(3) corporation structured to support fundraising efforts for the long-term sustainability of the Authority and the Pennsylvania Rural Health Model (PARHM). During the year ended June 30, 2021, the Authority recognized \$94,581 of grants from RHRCO. The outstanding grant receivable from RHRCO was \$6,462 as of June 30, 2021.

Note 5: Contingencies

General Litigation

In the normal course of business, the Authority could be, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Authority evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Rural Health Redesign Center Authority
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Notes to Financial Statements
June 30, 2021

Note 6: Subsequent Events

Subsequent events have been evaluated through December 15, 2021, which is the date the financial statements were available to be issued.

**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***

Independent Auditor's Report

Board of Directors
Rural Health Redesign Center Authority
Harrisburg, Pennsylvania

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 the Rural Health Redesign Center Authority (Authority), a component unit of the Commonwealth of Pennsylvania, which comprise the balance sheet as of June 30, 2021, and the related statements of revenues, expenses and change in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 15, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2021-01, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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*.

Management's Response to Findings

Management's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. Management's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

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.

BKD, LLP

Pittsburgh, Pennsylvania
December 15, 2021

Rural Health Redesign Center Authority
(Component Unit of the Commonwealth of Pennsylvania)
Schedule of Findings and Responses
Year Ended June 30, 2021

Reference Number	Finding	Management's Response
2021-01	Certain transactions during the fiscal year ended June 30, 2021, were recorded through the net position (deficit) of the Authority, resulting in audit adjustments necessary to correctly report periodic revenues and expenses.	Finding has been corrected internally.