

PENNSYLVANIA REINSURANCE PROGRAM

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2022

PENNSYLVANIA REINSURANCE PROGRAM

YEAR ENDED JUNE 30, 2022

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INDEPENDENT AUDITOR'S REPORT

Management
Pennsylvania Reinsurance Program
Harrisburg, Pennsylvania

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the governmental activities and major fund of the Pennsylvania Reinsurance Program (the "Reinsurance"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Reinsurance's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the governmental activities and major fund of Reinsurance as of June 30, 2022, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Reinsurance and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Reinsurance's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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Harrisburg, Pennsylvania
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In performing an audit in accordance with GAAS, we:

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

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

Adoptions of New Governmental Accounting Standards Board's

As described in Note 1 to the financial statements, in 2022 Reinsurance adopted the provisions of Governmental Accounting Standards Board's Statements No. 87, "*Leases*", Statement No. 89, "*Accounting for Interest Cost Incurred before the End of a Construction Period*", Statement No. 92, "*Omnibus 2020*", and part of Statement No.99 "*Omnibus 2022*". Our opinion is not modified with respect to these matters.

Other Matters

Omission of Management's Discussion and Analysis

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinions on the basic financial statements are not affected by this missing information.



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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2022 on our consideration of Reinsurance'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 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 Reinsurance's internal control over financial reporting and compliance.

Zelenkofske Axelrod LLC

ZELENKOFSCHE AXELROD LLC

Harrisburg, Pennsylvania
November 16, 2022

Basic Financial Statements

PENNSYLVANIA REINSURANCE PROGRAM
STATEMENT OF NET POSITION
JUNE 30, 2022

| | |
|------------------------------------|-------------------|
| ASSETS | |
| Cash and Cash Equivalents | \$ 141,517 |
| Total Assets | <u>141,517</u> |
| LIABILITIES | |
| Current Liabilities: | 14,097 |
| Accounts Payable | |
| Total Liabilities | <u>14,097</u> |
| NET POSITION | |
| Restricted for Reinsurance Program | <u>127,420</u> |
| Total Net Position | <u>\$ 127,420</u> |

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

PENNSYLVANIA REINSURANCE PROGRAM
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022

| Functions/Programs | <u>Expenses</u> | <u>Operating Grants and Contributions</u> | <u>Net (Expenses) Revenues and Changes in Net Position</u> |
|-------------------------------|-------------------|---|--|
| Governmental Activities: | | | |
| General Operations | \$ 183,887 | \$ 275,333 | \$ 91,446 |
| Total Governmental Activities | <u>\$ 183,887</u> | <u>\$ 275,333</u> | <u>91,446</u> |
| | | | |
| | | | Change in Net Position 91,446 |
| | | | Net Position - Beginning of the Year <u>35,974</u> |
| | | | Net Position - End of the Year <u>\$ 127,420</u> |

The accompanying notes are an integral part of the financial statements

PENNSYLVANIA REINSURANCE PROGRAM
BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2022

| | |
|------------------------------------|-------------------|
| ASSETS | |
| Cash and Cash Equivalents | \$ 141,517 |
| Total Assets | <u>\$ 141,517</u> |
| LIABILITIES | |
| Current Liabilities: | |
| Accounts Payable | \$ 14,097 |
| Total Liabilities | <u>14,097</u> |
| FUND BALANCE | |
| Restricted for Reinsurance Program | <u>127,420</u> |
| Total Fund Balance | <u>127,420</u> |
| Total Liabilities and Fund Balance | <u>\$ 141,517</u> |

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

PENNSYLVANIA REINSURANCE PROGRAM
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCE - GOVERNMENTAL FUND
 FOR THE YEAR ENDED JUNE 30, 2022

| | |
|---|--------------------------|
| Revenues | |
| Intergovernmental Revenue | <u>\$ 275,333</u> |
| Total Revenues | <u>275,333</u> |
| Expenditures | |
| General Operations | <u>183,887</u> |
| Total Expenditures | <u>183,887</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>91,446</u> |
| Change in Fund Balance | 91,446 |
| Fund Balance, Beginning of the Year | <u>35,974</u> |
| Fund Balance, End of Year | <u><u>\$ 127,420</u></u> |

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

PENNSYLVANIA REINSURANCE PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Pennsylvania Reinsurance Program ("Reinsurance") was established by Act 42 of 2019, which created the Reinsurance Fund as a special fund within the State Treasury to be administered by the Pennsylvania Insurance Department. The purpose of Reinsurance is to stabilize the rates and premiums for health insurance policies in the individual market to provide greater financial certainty to consumers of health insurance in the Commonwealth.

The financial statements of Reinsurance are intended to present the financial position and results of operations of only the Reinsurance Fund of the Pennsylvania Insurance Department which is attributable to the transactions of the program. The Pennsylvania Insurance Department, through its Insurance Commissioner, exercises oversight responsibility over the management, operations, and fiscal and programmatic accountability of the Pennsylvania Reinsurance Program. Reinsurance is a program of the Pennsylvania Insurance Department and, therefore, is considered a fund of the Commonwealth.

B. Measurement Focus and Basis of Accounting

Reinsurance follows Generally Accepted Accounting Principles (GAAP). GAAP allows specialized accounting for government entities, which is governed by pronouncements set by the Government Accounting Standards Board (GASB).

During the year, the Pennsylvania Insurance Department segregates transactions related to its functions or activities to aid financial management and to demonstrate legal compliance. The accounts of Reinsurance are organized on the basis of one fund, which is considered a separate accounting entity.

The basic financial statements of Reinsurance are comprised of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the financial statements

1. Government-wide Financial Statements

Government-wide financial statements (i.e. the statement of net position and the statement of activities) report on all the nonfiduciary activities of Reinsurance. Governmental activities which are supported by intergovernmental revenues are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting which incorporates noncurrent assets as well as long term debt and obligations. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

PENNSYLVANIA REINSURANCE PROGRAM
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus and Basis of Accounting (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customer or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

Amounts expended to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of Reinsurance are reported as a reduction of the related liability, rather than an expenditure.

2. Fund Financial Statements

Reinsurance has one fund presented as a major governmental fund that is considered a special revenue fund. A special revenue fund is used to account for specific financial resources which are restricted to expenditures for special purposes. Governmental fund financial statements include a balance sheet and a statement of revenues, expenditures, and changes in fund balance on a modified accrual basis of accounting.

Governmental fund financial statements are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets, current liabilities, and deferred outflows and inflows of resources are generally included on the balance sheet.

The statement of governmental fund revenues, expenditures, and changes in fund balance represents the sources (i.e. revenues and other financing sources) and uses (i.e. expenditures and other financing uses) of current financial resources. Governmental funds are prepared using the modified accrual basis of accounting. On the modified accrual basis, revenue is recognized in the year in which the resources are measurable and become available for both exchange and non-exchange transactions. Available means the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For general revenues, available means expected to be received within sixty days after year-end. For grant programs, revenue is recognized when the related eligible expenditure is incurred. Expenditures generally are recorded when a liability is incurred.

PENNSYLVANIA REINSURANCE PROGRAM
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Fund Balance

Governmental funds report fund balance in categories based on the level of constraint placed upon the funds. These levels are as follows:

Nonspendable fund balance – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.

Restricted fund balance – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Insurance Commissioner. These amounts cannot be used for any other purpose unless the Insurance Commissioner removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed.

Assigned fund balance – This classification includes amounts that are constrained by the Program's intent to be used for a specific purpose but are neither restricted nor committed.

Unassigned fund balance – This classification represents amounts that are available for any purpose.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance and lastly unassigned fund balance.

D. Net Position

The government-wide financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

- *Net Investment in capital assets* – This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted Net Position* – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Position* – This category represents net position of Reinsurance, not restricted for any project or other purpose.

PENNSYLVANIA REINSURANCE PROGRAM
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Net Position (Continued)

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, Reinsurance's policy is to apply restricted net position first.

E. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

F. Adoption of Governmental Accounting Standards Board Statements

Reinsurance adopted the provisions of GASB Statement No. 87, "*Leases*". The adoption of this statement did not result in modifications of previously reported amounts.

Reinsurance adopted the provisions of GASB Statement No. 89, "*Accounting for Interest Cost Incurred before the End of a Construction Period*". The adoption of this statement did not result in modifications of previously reported amounts.

Reinsurance adopted the provision GASB Statement 92, "*Omnibus 2020*." The adoption of this statement did not result in modifications of previously reported amounts.

Reinsurance adopted the part of the provision GASB Statement 99, "*Omnibus 2022*". The adoption of this statement did not result in modifications of previously reported amounts.

G. Pending Changes in Accounting Principles

In May 2019, the GASB issued Statement No. 91, "*Conduit Debt Obligations*". Reinsurance is required to adopt the provisions of Statement No. 91 for its fiscal year 2023 financial statements.

In March 2020, the GASB issued Statement No. 94, "*Public-Private and Public-Public Partnerships and Availability Payment Arrangements*". Reinsurance is required to adopt the provisions of statement No. 94 for its fiscal year 2023 financial statements.

In May 2020, the GASB issued Statement No. 96, "*Subscription-Based Information Technology Arrangements*". Reinsurance is required to adopt the provisions of Statement No. 96 for its fiscal year 2023 financial statements.

In April 2022, the GASB issued Statement No. 99, "*Omnibus 2022*". The provisions of Statement No. 99 are effective as follows:

- The requirements related to leases, public-private and public-public partnerships, and subscription-based information technology arrangements are effective for the Reinsurance's fiscal year 2023 financial statements.
- The requirements related to financial guarantees and the reporting of derivative instruments are effective for the Reinsurance fiscal year 2024 financial statements

PENNSYLVANIA REINSURANCE PROGRAM
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Pending Changes in Accounting Principles

In June 2022, the GASB issued Statement No. 100, "*Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62*". Reinsurance is required to adopt the provisions of Statement No. 100 for its fiscal year 2024 financial statements.

In June 2022, the GASB issued Statement No. 101 "Compensated Absences". Reinsurance is required to adopt the provisions of Statement No. 101 for its fiscal year 2025 financial statements.

Reinsurance has not yet completed the various analysis required to estimate the financial statement impact of these new pronouncements.

NOTE 2: DEPOSIT AND INVESTMENT RISK

The Commonwealth's fiscal code, as amended, authorizes Reinsurance to invest in obligations of the U.S. government and government-sponsored agencies and instrumentalities; certificates of deposits, fully insured or collateralized; certain commercial paper and repurchase agreements; highly rated bank promissory notes or investments funds or trusts; and "prudent man" investments as determined by Reinsurance's depository (i.e. Commonwealth Treasury Department).

The deposit and investment policies of the Treasury Department are governed by Sections: 301, 301.1 and 505 of the Pennsylvania Fiscal Code (Act of 1929 P.L. 343), and Section 321.1 of the Pennsylvania Administrative Code (Act of 1929 P.L. 177. No. 175).

Treasury deposits must be held in insured depositories approved by the Board of Finance and Revenue and must be fully collateralized. The Fiscal Code grants the Treasury Department the authority to invest in any deposits and investments subject. This authority is subject, however, to the exercise of that degree of judgment and care under the circumstances then prevailing which persons of prudence, discretion and intelligence who are familiar with such matters exercise in the management of their own affairs not in regard to speculation but in regard to the permanent disposition of the funds considering the probable income to be derived therefrom as well as the probable safety of their capital. Treasury Department deposits and investments may include equity securities and mutual funds.

As of June 30, 2022, Treasury Department manages the Commonwealth Investment Program (CIP). Treasury is required to exercise careful judgment in determining those investments that are appropriate for each Commonwealth fund based upon distinct investment criteria such as income needs, cash flow requirements, investment time horizons, and risk tolerance. All investments are made in accordance with the statutory authority described in the preceding paragraph. The CIP investment pool structure invests in both equity securities and fixed income securities to achieve the investment objectives of the funds of the Commonwealth Investment Program. Asset allocation targets among cash, equity securities, fixed income securities and alternative are established in order to meet these overall objectives.

PENNSYLVANIA REINSURANCE PROGRAM
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

NOTE 2: DEPOSIT AND INVESTMENT RISK (CONTINUED)

Treasury has created two separate Pools within the Commonwealth Investment Program, each with its own distinct investment strategies, goals, and holdings that reflect the differing needs of Commonwealth funds for income, cash flows, and investment risk tolerance. A highly liquid vehicle, Pool 999 (Liquid Asset Pool), consists of short-term fixed income and cash and provides a high degree of liquidity and security but only modest returns. A less liquid vehicle, Pool 998 (Common Investment Pool), allows for investment in assets that offer potentially higher returns with commensurate risk.

As of June 30, 2022, the balance of Reinsurance's investments held in the Commonwealth Investment Pool was \$141,517.

Interest Rate Risk

Reinsurance's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates. The Program has elected to use the segmented time distribution method of disclosure for its interest rate risk.

Credit Risk

The investment policies of Reinsurance are governed by statutes and contractual provisions contained in the bond trust indentures. Investments in U.S. government securities are not considered to have credit risk and, therefore, their credit quality is not disclosed.

Custodial Credit Risk

The custodial credit risk for an investment is the risk that, in the event of the failure of the counterparty to a transaction, Reinsurance will not be able to recover the value of investment or collateral securities that are in possession of an outside party.

As of June 30, 2022, none of Reinsurance's investments were exposed to custodial credit risk.

Fair Value

Reinsurance categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Reinsurance's investments in the Commonwealth Investment Pool are measured at the Net Asset Value (NAV). The Program has no unfunded commitments related to its Commonwealth Investment Pool investments. Additionally, these investments do not have a limit on the redemption frequency or require a redemption notice period.

PENNSYLVANIA REINSURANCE PROGRAM
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

NOTE 3: RELATED PARTY TRANSACTIONS

Under Act 42, Reinsurance may be funded through user fees from the Pennsylvania Health Insurance Exchange Authority (PHIEA), a component unit of the Commonwealth of Pennsylvania, as well as Federal funding and other available sources. The Act provides that the Pennsylvania Insurance Department (PID) shall coordinate with PHIEA to fund and operate the reinsurance program. Under the Memorandum of Understanding, by July 10th of each subsequent year PHIEA shall transfer an amount equal to the costs budgeted by PID as administrative costs and any additional amount necessary to fund the reinsurance payments to insurers pursuant to the Act. As of June 30, 2022, there is no outstanding balance on the agreement.

NOTE 4: CONTINGENCIES

In the normal course of business, there may be various claims and suits pending against the Program and its appointed officials. Management is of the opinion that these matters, if any, will not have a material adverse effect on Reinsurance's financial position of as June 30, 2022.

NOTE 5: SUBSEQUENT EVENTS

Reinsurance had evaluated all subsequent events through the report issue date of November 16, 2022. No events have taken place that effect the financial statements or require disclosure.



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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

Management
Pennsylvania Reinsurance Program
Harrisburg, Pennsylvania

We have audited, in accordance with the 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 governmental activities and each major fund of the Pennsylvania Reinsurance Program ("Reinsurance"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Reinsurance's basic financial statements and have issued our report thereon dated November 16, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Reinsurance'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Reinsurance's internal control. Accordingly, we do not express an opinion on the effectiveness of Reinsurance'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 Reinsurance's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Reinsurance'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 financial statements. 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*.

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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.

Zelenkofske Axelrod LLC

ZELENKOFKSKE AXELROD LLC

Harrisburg, PA
November 16, 2022



Zelenkofske Axelrod LLC

CERTIFIED PUBLIC ACCOUNTANTS

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November 16, 2022

Pennsylvania Reinsurance Program

We have audited the financial statements of the Pennsylvania Reinsurance Program (the "Program"), as of and for the year ended June 30, 2022, and have issued our report thereon dated November 16, 2022. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated October 3, 2022, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Program solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm have complied with all relevant ethical requirements regarding independence.

In order to eliminate the identified threats to independence associated with our assistance with the preparation of the financial statements, we have ensured a member of firm management, independent of the associated activity, performed a review of the financial statements.

Significant Risks Identified

We have identified the following significant risks: management override of controls and improper revenue recognition due to error or fraud. Although these significant risks were identified, we designed our audit procedures to mitigate the risks.



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Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Program is included in Note 1 to the financial statements. As described in Note 1 to the financial statements, in 2022 Reinsurance adopted the provisions of Governmental Accounting Standards Board's Statements No. 87, "Leases", Statement No. 89, "Accounting for Interest Cost Incurred before the End of a Construction Period", Statement No. 92, "Omnibus 2020", and part of Statement No.99 "Omnibus 2022". The adoption of the statements referenced above had no effect on previously reported amounts. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. There are no significant estimates impacting the financial statements.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. There are no sensitive disclosures impacting the financial statements.

Significant Unusual Transactions

For purposes of this communication, professional standards require us to communicate to you significant unusual transactions identified during our audit. We encountered no significant unusual transactions during our audit.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. Management has corrected all identified misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements identified by us as a result of our audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole or applicable opinion units.



Zelenkofske Axelrod LLC

CERTIFIED PUBLIC ACCOUNTANTS

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Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Program's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Circumstances that Affect the Form and Content of the Auditor's Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report. We have included an other matters in the auditor's report to discuss the omission of management's discussion and analysis as required by the Governmental Accounting Standards Board.

Representations Requested from Management

We have requested certain written representations from management, which are included in the management representation letter dated November 16, 2022.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings or Issues

In the normal course of our professional association with the Program, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating conditions affecting the entity, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Program's auditors.

Restriction on Use

This information is intended solely for the use of the Pennsylvania Reinsurance Program and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Zelenkofske Axelrod LLC

Zelenkofske Axelrod LLC
Harrisburg, Pennsylvania