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Board of Directors, Audit Committee, and Management
Rural Health Redesign Center Authority
Harrisburg, Pennsylvania

As part of our audit of the financial statements of Rural Health Design Center Authority (RHRCA) as of and for the year ended June 30, 2022, we wish to communicate the following to you.

AUDIT SCOPE AND RESULTS

Auditor's Responsibility Under 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

An audit performed 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 is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our contract more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement audit that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the financial statements does not relieve management or those charged with governance of their responsibilities. Our contract more specifically describes your responsibilities.

Qualitative Aspects of Significant Accounting Policies and Practices

Significant Accounting Policies

The Authority's significant accounting policies are described in *Note 1* of the audited financial statements.

Alternative Accounting Treatments

No matters are reportable.

Management Judgments and Accounting Estimates

No matters are reportable.

Significant Unusual Transactions

Significant unusual transactions represent significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual due to their timing, size, or nature. We have identified the following transactions that we consider to be significant and unusual.

No matters are reportable.

Financial Statement Disclosures

The following areas involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

- Long-term debt
- Related parties and affiliated relationships

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated. A misstatement is a difference between the amount, classification, presentation, or disclosure of a reported financial statement item and that which is required for the item to be presented fairly in accordance with the applicable financial reporting framework. Some adjustments proposed were not recorded because their aggregate effect is not currently material; however, they involve areas in which adjustments in the future could be material, individually or in the aggregate.

Areas in which adjustments were proposed include:

Proposed Audit Adjustments Recorded

- Adjust cash and long-term debt
- Increase salaries and revenue for expenses between RHRCA and RHRCO
- Adjust payroll accrual

Proposed Audit Adjustments Not Recorded

- None

Auditor's Judgments About the Quality of the Authority's Accounting Principles

No matters are reportable.

Significant Issues Discussed with Management

During the Audit Process

During the audit process, the following issues were discussed or were the subject of correspondence with management:

- Relationship with the Commonwealth of Pennsylvania, the Pennsylvania Rural Health Model, and the Rural Health Redesign Center Organization
- Business plans and strategies that may affect the risks of material misstatement
- Transactions with related parties and affiliates

Difficulties Encountered in Performing the Audit

Our audit requires cooperative effort between management and the audit team. During our audit, we did not encounter significant difficulties in working with management.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2022, 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.

FORVIS,LLP

Pittsburgh, Pennsylvania
November 22, 2022

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

Independent Auditor's Report and Financial Statements

June 30, 2022

Rural Health Redesign Center Authority
(Component Unit of the Commonwealth of Pennsylvania)
June 30, 2022

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Rural Health Redesign Center Authority
(Component Unit of the Commonwealth of Pennsylvania)
Management's Discussion and Analysis
Year Ended June 30, 2022

Introduction

This management's discussion and analysis of the financial performance of the Rural Health Redesign Center Authority (the "Authority") provides an overview of the Authority's financial activities for the year ended June 30, 2022. It should be read in conjunction with the accompanying financial statements of the Authority.

Financial Highlights

- The Authority reported income from operations for the fiscal year ended June 30, 2022. 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, 2022, the Authority incurred consulting costs that were funded through the working capital loan, secured federal grant, and contributions from an affiliate.
- Major funding sources during the fiscal year ended June 30, 2022, 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
(Component Unit of the Commonwealth of Pennsylvania)
Management's Discussion and Analysis
Year Ended June 30, 2022

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)

Current Assets		
Cash	\$	64,982
Grants receivable		480,900
Prepaid expenses		54,553
Total current assets		600,435
Funds Held at Pennsylvania Treasury		433,807
Capital Assets		11,430
Total assets	\$	1,045,672
Current Liabilities		
Current maturities of long-term debt	\$	600,000
Accounts payable		192,521
Accrued expenses		164,191
Total current liabilities		956,712
Long-Term Debt		800,000
Total liabilities		1,756,712
Net Position (Deficit)		
Investment in capital assets		11,430
Unrestricted (deficit)		(722,470)
Total liabilities and net position (deficit)	\$	1,045,672

Rural Health Redesign Center Authority
(Component Unit of the Commonwealth of Pennsylvania)
Management’s Discussion and Analysis
Year Ended June 30, 2022

The most significant items in the Authority’s balance sheet as of June 30, 2022, include receivables due from the Commonwealth of Pennsylvania Department of Treasury and outstanding debt of \$1.4 million through the Commonwealth of Pennsylvania. In addition, as part of the initial operating agreement, the Pennsylvania Treasury holds an amount of the Authority’s unused funds which amounted to \$433,807 as of June 30, 2022.

Operating Results and Changes in the Authority’s Net Position

In 2022, 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

Operating Revenues	
Governmental grants	\$ 2,648,996
Contribution income from RHRCO	742,312
	3,391,308
Operating Expenses	
Salaries and wages	497,999
Payroll taxes and employee benefits	140,184
Consulting services and professional fees	2,516,368
General and administrative costs	8,683
Depreciation and amortization	816
	3,164,050
Total operating expenses	3,164,050
Operating income and increase in net position	\$ 227,258

Operating Performance

The overall change in the Authority’s net position is its operating income or loss—generally, the difference between governmental grants, other contributions received, and the expenses incurred for ongoing operations. In 2022, the Authority reported a gain for operating performance. 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 Pennsylvania Rural Health Model.

Capital Assets

At the end of 2022, the Authority had \$11,430 invested in capital assets, net of accumulated depreciation, as detailed in *Note 6* to the financial statements.

Rural Health Redesign Center Authority
(Component Unit of the Commonwealth of Pennsylvania)
Management's Discussion and Analysis
Year Ended June 30, 2022

Debt Administration

The Authority had \$1,400,000 in debt outstanding at June 30, 2022. See *Note 3* for a summary of the Authority's long-term obligations. The Authority's formal debt issuances are subject to limitations imposed by state law.

Other Economic Factors

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

- 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, 2022

Assets

Current Assets

Cash	\$ 64,982
Due from Pennsylvania Treasury	480,900
Prepaid expenses	<u>54,553</u>

Total current assets 600,435

Funds Held at Pennsylvania Treasury 433,807

Property, Plant, and Equipment 11,430

Total assets \$ 1,045,672

Liabilities and Net Position (Deficit)

Current Liabilities

Current maturities of long-term debt	\$ 600,000
Accounts payable	192,521
Accrued expenses	<u>164,191</u>

Total current liabilities 956,712

Long-Term Debt

Total liabilities 800,000
1,756,712

Net Position (Deficit)

Investment in capital assets	11,430
Unrestricted (deficit)	<u>(722,470)</u>

Total liabilities and net position (deficit) \$ 1,045,672

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, 2022

Operating Revenues	
Governmental grants	\$ 2,648,996
Contribution income from RHRCO	<u>742,312</u>
	<u>3,391,308</u>
Operating Expenses	
Salaries and wages	497,999
Payroll taxes and employee benefits	140,184
Consulting services and professional fees	2,516,368
General and administrative costs	8,683
Depreciation and amortization	<u>816</u>
Total operating expenses	<u>3,164,050</u>
Operating income and increase in net position	227,258
Net Position (Deficit), Beginning of Year	<u>(938,298)</u>
Net Position (Deficit), End of Year	<u>\$ (711,040)</u>

Rural Health Redesign Center Authority
(Component Unit of the Commonwealth of Pennsylvania)
Statement of Cash Flows
Year Ended June 30, 2022

Cash Flows From Operating Activities	
Governmental grants received	\$ 2,453,778
Contribution income from RHRCO received	742,312
Consulting services and professional fees paid	(2,491,781)
Personnel costs paid	(638,183)
General and administrative costs paid	<u>(8,683)</u>
Net cash provided by operating activities	<u>57,443</u>
Cash Flows From Noncapital Financing Activities	
Principal paid on long-term debt	(400,000)
Purchase of fixed assets	<u>(12,246)</u>
Net cash used in noncapital financing activities	<u>(412,246)</u>
Cash Flows From Investing Activities	
Net receipts from the PA Treasury	<u>400,000</u>
Net cash provided by investing activities	<u>400,000</u>
Increase in Cash	45,197
Cash, Beginning of Year	<u>19,785</u>
Cash, End of Year	<u><u>\$ 64,982</u></u>
Reconciliation of Net Operating Income to Net Cash Provided By (Used In) Operating Activities	
Operating income	\$ 227,258
Contributions due from Pennsylvania Treasury	(170,852)
Depreciation and amortization	816
Changes in assets and liabilities	
Due from affiliates	(24,366)
Prepaid expenses	(46,130)
Accounts payable	43,174
Accrued expenses	<u>27,543</u>
Net cash provided by (used in) operating activities	<u><u>\$ 57,443</u></u>

Rural Health Redesign Center Authority
(Component Unit of the Commonwealth of Pennsylvania)
Notes to Financial Statements
June 30, 2022

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 and the Pennsylvania Rural Health Redesign Center Fund. The Authority is an independent entity that administers the Pennsylvania 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, 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, 2022, there were no cash equivalents. At times, these amounts may exceed federally insured limits. As of June 30, 2022, the Authority's cash accounts did not exceed federally insured limits.

Rural Health Redesign Center Authority
(Component Unit of the Commonwealth of Pennsylvania)
Notes to Financial Statements
June 30, 2022

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, 2022, is as follows:

	Beginning Balance	Loan Payments	Final Balance
RHRCA Fund (Cash)	\$ 833,807	\$ (400,000)	\$ 433,807

Due from Pennsylvania Treasury

Amounts due from the Pennsylvania Treasury reflect the outstanding amount of consideration to which the Authority expects to be entitled as reimbursement for providing administrative services to the Pennsylvania 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 Pennsylvania Treasury and are remitted to the Authority upon approval.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or acquisition value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The following estimated useful lives are being used by the Authority:

Equipment	3–5 years
Computer software	3–5 years

Rural Health Redesign Center Authority
(Component Unit of the Commonwealth of Pennsylvania)
Notes to Financial Statements
June 30, 2022

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, 2022.

Net Position

The net position of the Authority is classified in two components on its balance sheet.

- Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balance of borrowings used to finance the purchase of those assets.
- Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets.

Operating Activities

The Authority defines operating activities, as reported on the statement of revenues, expenses, and changes in net position, as those that 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, 2022, included \$2,648,996 from CMMI and \$742,312 from RHRCO.

Consulting Services and Professional Fees

The Authority outsources a large portion of the administration of the Pennsylvania Rural Health Model to outside 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.

Rural Health Redesign Center Authority
(Component Unit of the Commonwealth of Pennsylvania)
Notes to Financial Statements
June 30, 2022

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, 2022, 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, 2022:

	Beginning Balance	Payments	Ending Balance	Current Portion
Note payable	\$ 1,800,000	\$ 400,000	\$ 1,400,000	\$ 600,000

During the fiscal year ended June 30, 2021, the Authority borrowed \$2,000,000 through a note payable with the Commonwealth of Pennsylvania. 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, 2022, are as follows:

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

Rural Health Redesign Center Authority
(Component Unit of the Commonwealth of Pennsylvania)
Notes to Financial Statements
June 30, 2022

Note 4: Related Party Transactions

The Authority and Rural Health Redesign Center Organization (RHRCO) are related parties. Transactions with RHRCO are conducted on terms equivalent to those prevailing in an arm's-length transaction. The Rural Health Redesign Center Organization 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, 2022, the Authority recognized \$742,313 of grants from RHRCO.

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. 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.

Note 6: Capital Assets

Capital assets at June 30, 2022, are summarized as follows:

	Beginning Balance	Increases	Decreases	Final Balance
Computers and peripherals	\$ -	\$ 12,246	\$ -	\$ 12,246
Accumulated depreciation	-	(816)	-	(816)
Capital assets, net	<u>\$ -</u>	<u>\$ 11,430</u>	<u>\$ -</u>	<u>\$ 11,430</u>

Note 7: Subsequent Events

Subsequent events have been evaluated through November 22, 2022, which is the date the financial statements were available to be issued.



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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

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 (the "Authority"), which comprise the Authority's balance sheet as of June 30, 2022, and the related statements of revenues, expenses, and changes 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 November 22, 2022.

Report on 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. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 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*.

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.

FORVIS,LLP

Pittsburgh, Pennsylvania
November 22, 2022



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Independent Auditor's Report

Board of Directors
Rural Health Redesign Center Authority
Harrisburg, Pennsylvania

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Rural Health Redesign Center Authority (the "Authority"), a component unit of the Commonwealth of Pennsylvania, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2022, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (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 the Authority, 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

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 the Authority's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority'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 the Authority'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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries for 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 Material Communication

Listed below is another material communication between management and us related to the audit:

- Management representation letter (attached)

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of Rural Health Redesign Center Authority as of and for the year ended June 30, 2022, 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, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be a deficiency.

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 Authority's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or 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.

We observed the following matters that we consider to be deficiencies.

Deficiencies and Other Reportable Items

The Executive Director has the primary oversight responsibility for accounting and financial reporting. Due to limited number of employees and staff, RHRCA has limited segregation of duties throughout the accounting and financial reporting function. Identifying additional review and oversight on the accounting and financial reporting function through other members of the executive team or governance board could enhance the overall control environment.

A formalized and documented monthly review of the financial information of RHRCA by multiple members of the executive team and the governance board could also enhance the overall control environment associated with financial reporting.

This communication is intended solely for the information and use of management, the Audit Committee, the Board of Directors, and others within the Authority and is not intended to be and should not be used by anyone other than these specified parties.

FORVIS,LLP

Pittsburgh, Pennsylvania
November 22, 2022

Representation of:

Rural Health Redesign Center Authority
625 Forster Street, 8th Floor
Harrisburg, Pennsylvania 17210

Provided to:

FORVIS, LLP
Certified Public Accountants
30 Isabella Street, Suite 107
Pittsburgh, Pennsylvania 15212

The undersigned ("We") are providing this letter in connection with FORVIS' audit of our financial statements as of and for the years ended June 30, 2022, and 2021.

Our representations are current and effective as of the date of FORVIS' report: **November 22, 2022**

Our engagement with FORVIS is based on our contract for services dated: **August 18, 2022**

Our Responsibility and Consideration of Material Matters

We confirm that we are responsible for the fair presentation of the financial statements subject to FORVIS' report in conformity with accounting principles generally accepted in the United States of America.

We are also responsible for adopting sound accounting policies; establishing and maintaining effective internal control over financial reporting, operations, and compliance; and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

Confirmation of Matters Specific to the Subject Matter of FORVIS' Report

We confirm, to the best of our knowledge and belief, the following:

1. We have fulfilled our responsibilities, as set out in the terms of our contract, for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.
2. We acknowledge our responsibility for the design, implementation, and maintenance of:
 - a. Internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
 - b. Internal control to prevent and detect fraud.
3. We have reviewed and approved a draft of the financial statements and related notes referred to above, which you prepared in connection with your audit of our financial statements. We acknowledge that we are responsible for the fair presentation of the financial statements and related notes.

4. We have everything we need to keep our books and records.
5. We have provided you with:
 - a. Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d. All minutes of meetings of the governing body held through the date of this letter or summaries of actions of recent meetings for which minutes have not yet been prepared. All unsigned copies of minutes provided to you are copies of our original minutes approved by the governing body, if applicable, and maintained as part of our records.
 - e. All significant contracts and grants.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. We have informed you of all current risks of a material amount that are not adequately prevented or detected by our procedures with respect to:
 - a. Misappropriation of assets.
 - b. Misrepresented or misstated assets, deferred outflows of resources, liabilities, deferred inflows of resources, or net position.
8. We have no knowledge of any known or suspected fraudulent financial reporting or misappropriation of assets involving:
 - a. Management or employees who have significant roles in internal control, or
 - b. Others, where activities of others could have a material effect on the financial statements.
9. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, customers, regulators, suppliers, or others.
10. We have assessed the risk that the financial statements may be materially misstated as a result of fraud and disclosed to you any such risk identified.
11. We have disclosed to you the identity of all of the entity's related parties and all the related-party relationships of which we are aware. In addition, we have disclosed to you all related-party transactions of which we are aware.

Related-party relationships and transactions have been appropriately accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.

We understand that the term related party refers to an affiliate, management and members of their immediate families, component units, and any other party with which the entity may deal if the entity can significantly influence, or be influenced by, the management or operating policies of the other. The term affiliate refers to a party that directly or indirectly controls, or is controlled by, or is under common control with, the entity.

12. All transactions entered into by the entity with entities that are related parties were conducted on terms equivalent to those prevailing in an arm's-length transaction.
13. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
14. We are not aware of any side agreements or other arrangements (either written or oral) that are in place.
15. Except as reflected in the financial statements, there are no:
 - a. Plans or intentions that may materially affect carrying values or classifications of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.
 - b. Material transactions omitted or improperly recorded in the financial records.
 - c. Material gain/loss contingencies requiring accrual or disclosure, including those arising from environmental remediation obligations.
 - d. Events occurring subsequent to the statement of net position date through the date of this letter requiring adjustment or disclosure in the financial statements.
 - e. Agreements to purchase assets previously sold.
 - f. Restrictions on cash balances or compensating balance agreements.
 - g. Guarantees, whether written or oral, under which the entity is contingently liable.
 - h. Known or suspected asset retirement obligations.
16. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
17. We have no reason to believe the entity owes any penalties or payments under the Employer Shared Responsibility Provisions of the *Patient Protection and Affordable Care Act* nor have we received any correspondence from the IRS or other agencies indicating such payments may be due.
18. We are not aware of any pending or threatened litigation or claims whose effects should be considered when preparing the financial statements. We have not sought or received attorney's services related to pending or threatened litigation or claims during or subsequent to the audit period. Also, we are not aware of any litigation or claims, pending or threatened, for which legal counsel should be sought.
19. Adequate provisions and allowances have been accrued for any material losses from:
 - a. Uncollectible receivables.
 - b. Purchase commitments in excess of normal requirements or above prevailing market prices.
20. Except as disclosed in the financial statements, the entity has:
 - a. Satisfactory title to all recorded assets, and they are not subject to any liens, pledges, or other encumbrances.

- b. Complied with all aspects of contractual and grant agreements, for which noncompliance would materially affect the financial statements.
21. The financial statements disclose all significant estimates and material concentrations known to us. Significant estimates are estimates at the statement of net position date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur that would significantly disrupt normal finances within the next year. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
22. The fair values of financial and nonfinancial assets and liabilities, if any, recognized in the financial statements or disclosed in the notes thereto are reasonable estimates based on the methods and assumptions used. The methods and significant assumptions used result in measurements of fair value appropriate for financial statement recognition and disclosure purposes and have been applied consistently from period to period, taking into account any changes in circumstances. The significant assumptions appropriately reflect market participant assumptions.
23. We have not been designated as a potentially responsible party (PRP or equivalent status) by the Environmental Protection Agency (EPA) or other cognizant regulatory agency with authority to enforce environmental laws and regulations.
24. With respect to any nonattest services you have provided us during the year, including preparation of the audited financial statements and supplemental schedules
 - a. We have designated a qualified management-level individual to be responsible and accountable for overseeing the nonattest services.
 - b. We have established and monitored the performance of the nonattest services to ensure they meet our objectives.
 - c. We have made any and all decisions involving management functions with respect to the nonattest services and accept full responsibility for such decisions.
 - d. We have evaluated the adequacy of the services performed and any findings that resulted.
 - e. We have received the deliverables from you and have stored these deliverables in information systems controlled by us. We have taken responsibility for maintaining internal control over these deliverables.
25. With regard to deposit and investment activities:
 - a. All deposit, repurchase and reverse repurchase agreements, and investment transactions have been made in accordance with legal and contractual requirements.
 - b. Investments, derivative instrument transactions, and land and other real estate held by endowments are properly valued.
 - c. Disclosures of deposit and investment balances and risks in the financial statements are consistent with our understanding of the applicable laws regarding enforceability of any pledges of collateral.
 - d. We understand that your audit does not represent an opinion regarding the enforceability of any collateral pledges.

26. As an entity subject to *Government Auditing Standards*:

- a. We acknowledge that we are responsible for compliance with applicable laws, regulations, and provisions of contracts and grant agreements.
- b. We have identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that have a direct and material effect on the determination of amounts in our financial statements or other financial data significant to the audit objectives.
- c. We have identified and disclosed to you any violations or possible violations of laws, regulations, and provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for recognition and/or disclosure in the financial statements or for your reporting on noncompliance.
- d. We have taken or will take timely and appropriate steps to remedy any fraud, abuse, illegal acts, or violations of provisions of contracts or grant agreements that you or other auditors report.
- e. We have a process to track the status of audit findings and recommendations.
- f. We have identified to you any previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of your audit and the corrective actions taken to address any significant findings and recommendations made in such audits, attestation engagements, or other studies.
- g. We have provided our views on any findings, conclusions, and recommendations, as well as our planned corrective actions with respect thereto, to you for inclusion in the findings and recommendations referred to in your report on internal control over financial reporting and on compliance and other matters based on your audit of the financial statements performed in accordance with *Government Auditing Standards*.

27. The supplementary information required by the Governmental Accounting Standards Board, consisting of management's discussion and analysis, (budgetary comparisons, modified approach to infrastructure, pension, and other postemployment benefit information), has been prepared and is measured and presented in conformity with the applicable GASB pronouncements, and we acknowledge our responsibility for the information. The information contained therein is based on all facts, decisions, and conditions currently known to us and is measured using the same methods and assumptions as were used in the preparation of the financial statements. We believe the significant assumptions underlying the measurement and/or presentation of the information are reasonable and appropriate. There has been no change from the preceding period in the methods of measurement and presentation.

28. We acknowledge the current economic volatility presents difficult circumstances and challenges for our industry. Entities are potentially facing constraints on liquidity, difficulty obtaining financing, etc. We understand the values of the assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments that could negatively impact the entity's ability to meet debt covenants or maintain sufficient liquidity.

We acknowledge that you have no responsibility for future changes caused by the current economic environment and the resulting impact on the entity's financial statements. Further, management and governance are solely responsible for all aspects of managing the entity, including evaluating capital needs and liquidity plans; etc.

29. We have been classified as a beneficiary as compared to a sub-recipient of federal funding (CFDA # 93.968) provided by the Centers for Medicare & Medicaid Services (CMMI) through the Department of Health and Human Services.

DocuSigned by:

Gary Zegiestowsky

Gary Zegiestowsky, Executive Director
gz@rhrco.org

DocuSigned by:

Janice Walters

Janice Walters, Chief Operating Officer
iw@rhrco.org