

**Rural Health Redesign Center Organization**  
Independent Auditor's Report and Financial Statements  
June 30, 2022

**Rural Health Redesign Center Organization**  
**June 30, 2022**

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## Independent Auditor's Report

Board of Directors  
Rural Health Redesign Center Organization  
Harrisburg, Pennsylvania

### **Opinion**

We have audited the financial statements of Rural Health Redesign Center Organization (Organization), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2022, and the changes in its net assets 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). 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 Organization 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 opinion.

### **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 Organization's ability to continue as a going concern within one year after the date that these financial statements are available to be 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 opinion. 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.

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 the Organization'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 Organization'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.

**FORVIS,LLP**

Pittsburgh, Pennsylvania  
November 22, 2022

**Rural Health Redesign Center Organization**  
**Statement of Financial Position**  
**June 30, 2022**

**Assets**

**Current Assets**

Cash and cash equivalents	\$	4,135,928
Accounts receivable		<u>8,000</u>
Total current assets		<u>4,143,928</u>
Total assets	\$	<u><u>4,143,928</u></u>

**Liabilities and Net Assets**

**Current Liabilities**

Accounts payable	\$	20,200
Accrued expenses		<u>22,477</u>
Total current liabilities		<u>42,677</u>
Total liabilities		<u>42,677</u>

**Net Assets**

Without donor restrictions		20,297
With donor restrictions		<u>4,080,954</u>
Total net assets		<u>4,101,251</u>
Total liabilities and net assets	\$	<u><u>4,143,928</u></u>

**Rural Health Redesign Center Organization**  
**Statement of Activities**  
**Year Ended June 30, 2022**

<b>Revenues, Gains, and Other Support Without Donor Restrictions</b>	
Consulting revenue	\$ 9,800
Interest income	1,342
Other contributions	25,000
Net assets released from restriction	<u>830,927</u>
Total revenues, gains, and other support without donor restrictions	<u>867,069</u>
 <b>Expenses</b>	
Salaries and wages	53,468
Payroll taxes and employee benefits	12,358
Consulting services and professional fees	39,032
Administrative and other expenses	<u>13,436</u>
Total operating expenses	118,294
 <b>Operating Income</b>	 <u>748,775</u>
 <b>Net Assets Without Donor Restrictions</b>	
Operating income	748,775
Contributions to RHRCA	<u>(742,312)</u>
Increase in net assets without donor restrictions	<u>6,463</u>
 <b>Net Assets With Donor Restrictions</b>	
Net assets released from restrictions	<u>(830,927)</u>
Increase in net assets with donor restrictions	<u>(830,927)</u>
 <b>Change in Net Assets</b>	 (824,464)
 <b>Net Assets, Beginning of Year</b>	 <u>4,925,715</u>
 <b>Net Assets, End of Year</b>	 <u><u>\$ 4,101,251</u></u>

**Rural Health Redesign Center Organization**  
**Statement of Cash Flows**  
**Year Ended June 30, 2022**

<b>Operating Activities</b>	
Change in net assets	\$ (824,464)
Changes in	
Other current assets	14,740
Accounts payable and accruals	<u>36,115</u>
Net cash used in operating activities	<u>(773,609)</u>
<b>Decrease in Cash and Cash Equivalents</b>	(773,609)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>4,909,537</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 4,135,928</u></u>

# **Rural Health Redesign Center Organization**

## **Notes to Financial Statements**

**June 30, 2022**

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

#### ***Nature of Operations***

The Rural Health Redesign Center Organization (Organization) was established in 2020 to serve as a supporting organization to the Rural Health Redesign Center Authority (RHRCA). The Organization is a nonprofit 501(c)(3) corporation structured to support fundraising efforts for the long-term sustainability of the RHRCA and the Pennsylvania Rural Health Model (PARHM). The Organization has a dual focus to:

1. Continue support of the PARHM to achieve the financial and health related goals of the program of this Center for the Medicare & Medicaid Innovation (CMMI) Demonstration Project
2. Build solutions for rural hospitals and communities across the country to drive financial sustainability while improving the health of the populations in these communities. This focus area is building on the experience and lessons learned in Pennsylvania as well as elsewhere in the country to bring scalable, cost-effective solutions to rural communities

#### ***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, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

#### ***Cash and Cash Equivalents***

The Organization 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 Organization's cash accounts exceeded federally insured limits by \$3,885,928.

#### ***Accounts Receivable***

Accounts receivable reflect the outstanding amount of consideration to which the Organization expects to be entitled in exchange for providing consulting services. These amounts are due from governmental programs and other organizations. Accounts receivable are due in full when billed.

# Rural Health Redesign Center Organization

## Notes to Financial Statements

June 30, 2022

The Organization performs individual credit risk assessments that evaluate the individual circumstances, abilities and intentions of each entity prior to providing the consulting services. If subsequent to providing the services the Organization becomes aware of specific events, facts, or circumstances indicating the entity no longer has the ability or intent to pay the amount of consideration to which the Organization expected to be entitled for providing the consulting services, then the related receivable balances are written off. There was no bad debt expense recognized for the year ended June 30, 2022.

All accounts receivable are due to the Organization from the Healthcare Authority of the state of Washington and amounted to \$8,000 as of June 30, 2022.

### **Net Assets**

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor or certain grantor restrictions.

*Net Assets With Donor Restrictions* – Net assets whose use by the Organization has been limited by donors to a specific time period or purpose or have been restricted by donors to be maintained by the Organization in perpetuity.

### **Consulting Revenue**

Consulting revenue includes fees from governmental programs and other organizations for building solutions for rural hospitals and communities across the county. Fees are recognized as revenue as the Organization satisfies performance obligations under its contracts with payors. Consulting revenue is reported at the estimated transaction price or amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing consulting services rendered. The Organization determines the transaction price based on standard charges for services provided, reduced by any applicable price concessions.

### **Income Taxes**

The Organization is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Organization is subject to federal income tax on any unrelated business taxable income. The Organization files tax returns in the U.S. federal jurisdiction.

# Rural Health Redesign Center Organization

## Notes to Financial Statements

June 30, 2022

### Contributions

Contributions are provided to the Organization either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

<b>Nature of the Gift</b>	<b>Value Recognized</b>
<i>Conditional gifts, with or without restriction</i>	
Gifts that depend on the Organization overcoming a donor-imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> , the donor-imposed barrier is met
<i>Unconditional gifts, with or without restriction</i>	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment, and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

When a donor-stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment, and other long-lived assets are reported when those assets are placed in service.

Gifts and investment income having donor stipulations which are satisfied in the period the gift is received are recorded as revenue with donor restrictions and then released from restriction.

Conditional contributions having donor stipulations which are satisfied in the period the gift is received are recorded as revenue with donor restrictions and then released from restrictions.

# Rural Health Redesign Center Organization

## Notes to Financial Statements

June 30, 2022

### Note 2: Consulting Revenue

Consulting revenue is the amount that reflects the consideration to which the Organization expects to be entitled to in exchange for providing consulting services to payors. The consulting fees are billed as services are completed and revenue is recognized as performance obligations are satisfied.

#### ***Performance Obligations***

Performance obligations are determined based on the nature of the consulting services provided by the Organization. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected charges. The Organization believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. The Organization measures performance obligations for consulting revenue from initiation of the contract to the point when it is no longer required to provide services to that entity, which is generally the completion of the contract. The Organization measures performance obligations for consulting revenue as a series of distinct services that are considered one performance obligation that is satisfied over time.

#### ***Transaction Price***

The Organization determines the transaction price based on standard charges for consulting services provided, reduced by explicit price concessions, which consist of discounts provided to entities. The Organization determines its estimates of discounts based on contractual agreements. The Organization determines its estimate of implicit price concessions, if any, based on its historical collection experience with each entity.

#### ***Revenue Composition***

The Organization has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are homogeneous to all entities.

#### ***Financing Component***

The Organization has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from entities for the effects of a significant financing component due to the Organization's expectation that the period between the time the service is provided to an entity and the time the entity remits payment for that service will be one year or less.

# Rural Health Redesign Center Organization

## Notes to Financial Statements

June 30, 2022

### Contract Costs

The Organization has applied the practical expedient provided by FASB ASC 340-40-25-4, and all incremental contract acquisition costs are expensed as they are incurred, as the amortization period of the asset that the Organization otherwise would have recognized is one year or less in duration. However, incremental costs incurred to obtain contracts for which the amortization period of the asset that the Organization otherwise would have recognized is longer than one year are capitalized and amortized over the life of the contract based on the pattern of revenue recognition from these contracts. The Organization regularly evaluates its contract costs and considers whether they should be capitalized over the life of the contract. These amounts are not considered to be significant to the overall financial statements and are expensed as incurred since they have a minimal effect on operations.

### Note 3: Liquidity and Availability

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of June 30, 2022, comprise the following:

Financial assets	
Cash and cash equivalents	\$ 4,135,928
Accounts receivable	<u>8,000</u>
Total financial assets	4,143,928
Less donor-imposed restricted funds	<u>4,080,954</u>
Total financial assets available to meet general expenditures within one year	<u>\$ 62,974</u>

The Organization manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

The Organization received a significant contribution restricted by donors and considers this funding vital to its ongoing operations to be available to meet cash needs for contributions to the RHRCA.

# Rural Health Redesign Center Organization

## Notes to Financial Statements

June 30, 2022

### Note 4: Net Assets With Donor Restrictions

Net assets with donor restrictions are available for Community Health Reinvestment Projects (CHR) in the community serviced by Highmark Inc., consistent with Section 3 of the Grant Agreement dated December 21, 2020. These CHR projects are aimed at prevention and treatment of disease or injury supporting the PRHM through a combination of transformation plans and new payment model and fund the long-term viability of the RHRCA to support Pennsylvania Rural Hospitals. In June 2021, the definition of the purpose of these funds was expanded to include servicing of the RHRCA long-term debt as necessary. The Organization released \$830,927 of net assets with donor restrictions to support the RHRCA during the year ended June 30, 2022.

### Note 5: Related Party Transactions

The Organization and RHRCA are related parties. Transactions with RHRCA are conducted on terms equivalent to those prevailing in an arm's-length transaction. The Organization serves as a supporting organization to the RHRCA structured to support fundraising efforts for the long-term sustainability of the RHRCA and the Pennsylvania Rural Health Model. The Organization recognized \$742,312 of contributions to the RHRCA during the year ended June 30, 2022.

### Note 6: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

#### *General Litigation*

In the normal course of business, the Organization is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Organization 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 7: Subsequent Events

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