

PENNSYLVANIA REINSURANCE PROGRAM

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

PENNSYLVANIA REINSURANCE PROGRAM

YEAR ENDED JUNE 30, 2023

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| Independent Auditor's Report | 1 – 3 |
| Management's Discussion and Analysis | 4 – 7 |
| Basic Financial Statements | 8 |
| Statement of Net Position | 9 |
| Statement of Activities | 10 |
| Balance Sheet – Governmental Fund | 11 |
| Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Fund | 12 |
| Notes to Financial Statements | 13 – 18 |
| Required Supplementary Information | 19 |
| Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund | 20 |
| Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 21 – 22 |



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INDEPENDENT AUDITOR'S REPORT

Pennsylvania Reinsurance Program
Harrisburg, Pennsylvania

Report on the Audit of the Financial Statements

Opinions

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, 2023, and the related notes to the financial statements, which collectively comprise 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 respective financial position of the governmental activities and major fund of Reinsurance as of June 30, 2023, and the respective 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* (GAS), 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

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 twelve 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 GAS 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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Pennsylvania Reinsurance Program
Harrisburg, Pennsylvania
Page 2

In performing an audit in accordance with GAAS and GAS, 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 2023 Reinsurance adopted the provisions of Governmental Accounting Standards Board's Statement No. 91, "*Conduit Debt Obligations*", Statement No. 94, "*Public-Private and Public-Public Partnerships and Availability Payment Arrangements*", No. 96, "*Subscription-Based Information Technology Arrangements*", and the required provisions of Statement No. 99 "*Omnibus 2022*". Our opinion is not modified with respect to these matters.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of revenues, expenditures, and changes in fund balance budget and actual – Governmental Fund on pages 4 through 7 and page 19 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 of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



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Pennsylvania Reinsurance Program
Harrisburg, Pennsylvania
Page 3

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2023, 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 Axlerod LLC

ZELENKOSKE AXELROD LLC

Harrisburg, Pennsylvania
December 14, 2023

Section 1332 – Waiver – Pennsylvania Reinsurance Program Management’s Discussion and Analysis For the Year Ended June 30, 2023

The following management’s discussion and analysis provides a narrative overview of the Pennsylvania Reinsurance Program’s (the “Program”) financial performance for the fiscal year ended June 30, 2023, by focusing on the current year’s activities and resulting changes in financial position analyzed against prior years. This information should be reviewed in conjunction with the accompanying basic financial statements and notes for a more comprehensive understanding of the Program’s financial condition.

DESCRIPTION OF THE PROGRAM

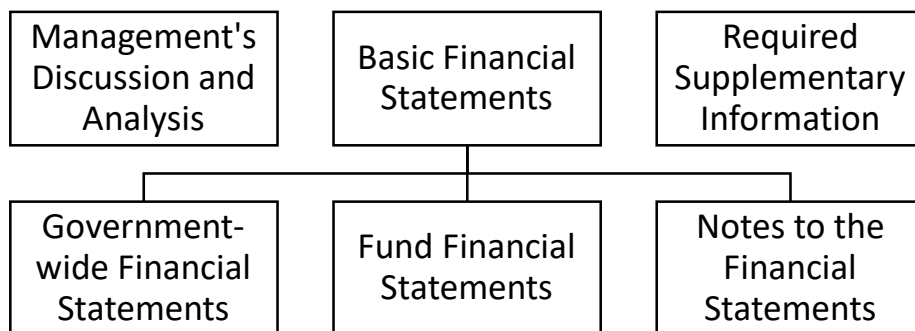
On July 2nd, 2019, Act 42 was signed creating an opportunity for Pennsylvania to implement a state reinsurance program to help moderate premiums in the Commonwealth’s individual health insurance market and maintain and protect coverage gains in the Commonwealth. Pennsylvania’s reinsurance program was created under a Federal Section 1332 State Relief and Empowerment Waiver.

The goal of Pennsylvania’s reinsurance program is to favorably impact premium rates beginning in 2021 and beyond for Pennsylvanians purchasing health insurance coverage in the individual market. The Insurance Department (“Department”) is the commonwealth agency primarily responsible for the implementation of the reinsurance program. The Department worked collaboratively in fiscal year 2022-2023 with the Pennsylvania Health Insurance Exchange Authority (Pennie®) and the U.S. Department of Health and Human Services to administer a reinsurance program that reimburses issuers for high-cost claims.

The program is designed to reduce individual health insurance market premium rates from where they would otherwise be and is funded through the Pennie user fee on insurance companies participating in the exchange as well as through “pass through” savings from the federal government.

OVERVIEW OF THE FINANCIAL REPORT

The diagram below shows the required elements of general-purpose financial reporting and their relationship to one another:



The government-wide financial statements (Statement of Net Position and Statement of Activities) report information about the nonfiduciary activities of the Program 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 when the cash is received or paid.

The fund financial statements (Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance) report information on the special revenue fund used to account for specific financial resources restricted for a special purpose. These statements are reported using current financial resources focus and modified accrual basis of accounting, which recognizes only assets and liabilities expected to be used or come due soon after the year. Revenue is recognized when measurable and collected during the year or soon after the year end. Expenditures are generally recorded when a liability is incurred. These statements provide a detailed short-term view that helps determine the financial resources available by focusing on the flow of cash and balances at year-end available for spending.

FINANCIAL STATEMENTS

The table below summarizes the government-wide financial statements as of June 30, 2023, and 2022.

| | FY 2022-2023 | FY 2021-2022 |
|---------------------------------|----------------|--------------|
| Total Assets | \$ 2,359,114 | \$ 141,517 |
| Total Liabilities | \$ 22,433 | \$ 14,097 |
| Total Net Position - Restricted | \$ 2,336,681 | \$127,420 |
| | | |
| Program Revenues | \$ 139,775,076 | \$ 275,333 |
| Expenses | \$ 137,565,815 | \$ 183,887 |
| Change In Net Position | \$ 2,209,261 | \$ 91,446 |

CHANGES IN FINANCIAL POSITION

For the fiscal year ending June 30, 2023, net position increased by \$2,209,261. In prior years, the Program had been in its development stage, but FY 2022-2023 was the first year the Program began releasing reimbursements to qualified issuers for reimbursable high-cost claims. During the year, expenses increased by \$137,381,928 relating to the reimbursement payments. As a result of the increased operational costs, Pennie provided additional revenue required by Act 42 in the amount of \$17,599,202.

During fiscal year 2023 the Program also received federal pass-through funds of \$120,230,471 from the Center for Medicare and Medicaid Services and Center for Consumer Information and Insurance Oversight (“CMS/CCIIO”). This funding was used to reimburse qualified issuers for reimbursable high-cost claims.

FUND BUDGETARY HIGHLIGHTS

The Department adopts an annual budget for the Program, and a schedule showing budget amounts compared with actual results for the current year is provided as part of the required supplementary information. Each month the Program’s management will meet to assess commitments, invoices, and program changes that could impact the budget. For FY 2022-2023 there was no change in the original budget.

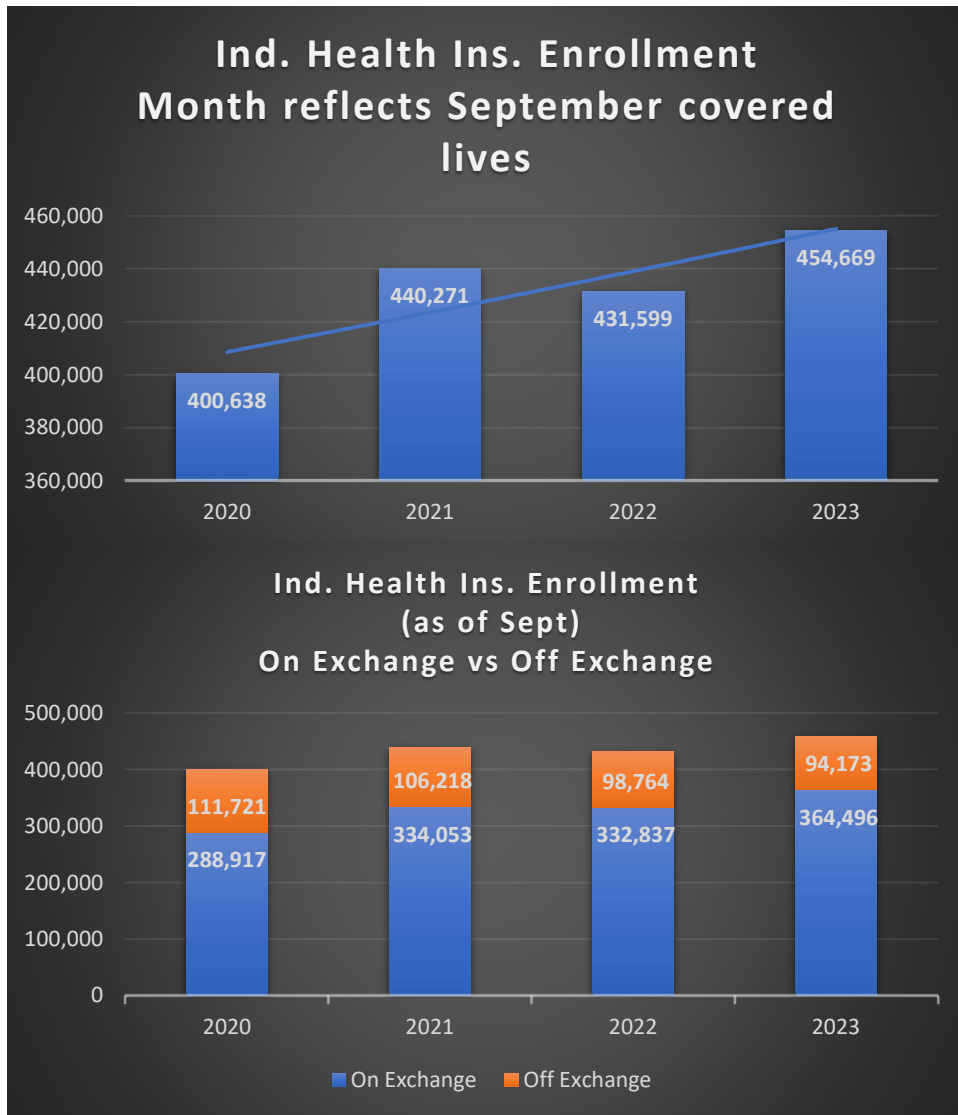
During the year, actual expenditures were \$137,565,815 or 15.8% lower than budgeted. Since reimbursement payments are based on an actuarial calculation, the Program estimated payments during the budget process. However, actual payments were lower than anticipated due to the decreased number of reinsurance reimbursable claims.

CURRENTLY KNOW FACTS, CONDITIONS, AND NEXT YEAR’S OUTLOOK

The primary source of revenue is the revenue transfer by Pennie and pass-through funds from the federal government. The reinsurance payments are offered through the Program to eligible health insurers for

reimbursement of claims that fall within the plan year reinsurance parameters. Pennie collects as a user fee a percentage of premium written by health insurance companies on the exchange to operationalize the exchange and fund the reinsurance program. There are many factors that contribute to the calculation of those funds, which include premium amounts, enrollment, percent of cohorts that qualify for subsidies, and the cost of the second lowest cost silver products within each rating area.

Enrollment in Pennie Year over year, calendar basis



Enrollment in Off-exchange Year over year

Year over Year Program Stats (Calendar Year)

| Parameters | 2021 | 2022 | 2023 | 2024 |
|----------------------------|----------------|----------------|----------------|----------------|
| Attachment Point | \$ 60,000 | \$ 60,000 | \$ 60,000 | \$ 60,000 |
| Cap | \$ 100,000 | \$ 100,000 | \$ 100,000 | \$ 100,000 |
| Coinsurance Percent | 60% | 64% | 53% | 50% |
| Approx. Premium Savings | 4.9% | 5.5% | 4.3% | 4.6% |
| Est. Max Reinsurance Pool | \$ 140,000,000 | \$ 169,000,000 | \$ 159,000,000 | \$ 158,000,000 |
| Actual Federal PassThrough | \$ 120,230,471 | \$ 124,249,933 | \$ 115,438,184 | TBD |
| Actual State Funded | \$ 17,299,202 | \$ 30,646,232 | TBD | TBD |
| Total Reimbursement | \$ 137,529,673 | \$ 154,896,165 | TBD | TBD |

The diagrams above represent the trend in currently known enrollment data. Using the data available, the Program anticipates reimbursement payments in FY 2023-2024 to increase to \$155,029,496 based on the modeled enrollment estimates.

The financial focus has been to ensure the best use of the grant funds to reduce the uninsured population and increase enrollment through the state-based exchange, Pennie. It is expected that issuers will continue to have incentives to apply their care management practices even for individuals eligible for reinsurance. This is because issuers will be reimbursed for only a portion of a given member's claim costs between the attachment point and reinsurance cap. To elaborate, based on communications with the insurers, the insurers apply their standard cost of care management activities in the individual market, which may be eligible for reinsurance. These activities include, but are not limited to, disease management programs, high-cost claim management, high-risk member outreach, care coordination, case management population and subpopulation programs. Insurers provide programs for both providers and enrollees that seek to prioritize the health of the enrollees while managing health care costs and claims. Some insurers have additional cost savings initiatives that include a shared savings arrangement or pay for performance where education, support, and telephonic intervention are activities employed by the insurers operating in the Individual Marketplace.

In order to maintain compliance with federal and state requirements, the Program must complete and submit multiple reports, that are due quarterly or annually. To project future operational costs, the Department procured contracts that span the initial five years of the reinsurance program. By having contracts with vendors that span over multiple years it limits having to reprocur the work each year, reducing internal operational expenses as well as reducing expenses for external actuarial and system needs. In the event that federal, or state changes may impact the Program, the Actuarial statement of work can be amended to run analyses on potential outcomes.

The Department remains alert to the potential need to adapt to federal or state legislation that relates to Patient Protection and Affordable Care Act (PPACA), notably changes that could influence premium, enrollment, or subsidies. Notably, the Department has observed the beneficial impact of the American Rescue Plan Act of 2021, and the Inflation Reduction Act of 2022 on enrollment and premium subsidies, which will continue until December 31, 2025.

If you have questions about this report or wish to request additional information, please contact the Pennsylvania Insurance Department.

**Basic
Financial
Statements**

PENNSYLVANIA REINSURANCE PROGRAM
STATEMENT OF NET POSITION
JUNE 30, 2023

| | |
|------------------------------------|----------------------------|
| ASSETS | |
| Cash and Cash Equivalents | <u>\$ 2,359,114</u> |
| Total Assets | <u>2,359,114</u> |
| LIABILITIES | |
| Current Liabilities: | <u>22,433</u> |
| Total Liabilities | <u>22,433</u> |
| NET POSITION | |
| Restricted for Reinsurance Program | <u>2,336,681</u> |
| Total Net Position | <u><u>\$ 2,336,681</u></u> |

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

PENNSYLVANIA REINSURANCE PROGRAM
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2023

| 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 | \$ 137,565,815 | \$ 139,775,076 | \$ 2,209,261 |
| Total Governmental Activities | <u>\$ 137,565,815</u> | <u>\$ 139,775,076</u> | <u>2,209,261</u> |
| | | | |
| | | | Change in Net Position 2,209,261 |
| | | | Net Position - Beginning of the Year <u>127,420</u> |
| | | | Net Position - End of the Year <u>\$ 2,336,681</u> |

The accompanying notes are an integral part of the financial statements

PENNSYLVANIA REINSURANCE PROGRAM
BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2023

| | |
|------------------------------------|----------------------------|
| ASSETS | |
| Cash and Cash Equivalents | <u>\$ 2,359,114</u> |
| Total Assets | <u><u>\$ 2,359,114</u></u> |
| LIABILITIES | |
| Current Liabilities: | |
| Accounts Payable | <u>\$ 22,433</u> |
| Total Liabilities | <u>22,433</u> |
| FUND BALANCE | |
| Restricted for Reinsurance Program | <u>2,336,681</u> |
| Total Fund Balance | <u>2,336,681</u> |
| Total Liabilities and Fund Balance | <u><u>\$ 2,359,114</u></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, 2023

| | |
|---|----------------------------|
| Revenues | |
| Intergovernmental Revenue | <u>\$ 139,775,076</u> |
| Total Revenues | <u>139,775,076</u> |
| Expenditures | |
| General Operations | <u>137,565,815</u> |
| Total Expenditures | <u>137,565,815</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>2,209,261</u> |
| Change in Fund Balance | 2,209,261 |
| Fund Balance, Beginning of the Year | <u>127,420</u> |
| Fund Balance, End of Year | <u><u>\$ 2,336,681</u></u> |

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

PENNSYLVANIA REINSURANCE PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

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, 2023

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, 2023

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, 2023

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. 91, "*Conduit Debt Obligations*". The adoption of this statement did not result in modifications of previously reported amounts.

Reinsurance adopted the provisions of GASB Statement No. 94, "*Public-Private and Public-Public Partnerships and Availability Payment Arrangements*". The adoption of this statement did not result in modifications of previously reported amounts.

Reinsurance adopted the provision GASB Statement No. 96, "*Subscription-Based Information Technology Arrangements*". The adoption of this statement did not result in modifications of previously reported amounts.

Reinsurance adopted 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 April 2022, the GASB issued Statement No. 99, "*Omnibus 2022*". Certain requirements of the Statement were implemented in 2023. The requirements related to financial guarantees and the reporting of derivative instruments are effective for Reinsurance's fiscal year 2024 financial statements.

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.

PENNSYLVANIA REINSURANCE PROGRAM
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023

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, 2023, 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.

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, 2023, the balance of Reinsurance's investments held in the Commonwealth Investment Pool was \$2,359,114.

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.

PENNSYLVANIA REINSURANCE PROGRAM
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023

NOTE 2: DEPOSIT AND INVESTMENT RISK (CONTINUED)

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, 2023, 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.

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, 2023, PHIEA transferred \$17,599,202 to fund program costs and 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, 2023.

NOTE 5: SUBSEQUENT EVENTS

Reinsurance had evaluated all subsequent events through the report issue date of December 14, 2023. No events have taken place that effect the financial statements or require disclosure.

**Required
Supplementary
Information**

PENNSYLVANIA REINSURANCE PROGRAM
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2023

| | Budgeted Amounts | | Actual | Variance With Final Budget Positive (Negative) |
|---|--------------------|--------------------|---------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Intergovernmental Revenue | \$ 140,531,000 | \$ 140,531,000 | \$ 139,775,076 | \$ (755,924) |
| Total Revenues | <u>140,531,000</u> | <u>140,531,000</u> | <u>139,775,076</u> | <u>(755,924)</u> |
| Expenditures | | | | |
| General Operations | <u>140,531,000</u> | <u>140,531,000</u> | <u>137,565,815</u> | <u>2,965,185</u> |
| Total Expenditures | <u>140,531,000</u> | <u>140,531,000</u> | <u>137,565,815</u> | <u>2,965,185</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>-</u> | <u>-</u> | <u>2,209,261</u> | <u>2,209,261</u> |
| Change in Fund Balance | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,209,261</u> | <u>\$ 2,209,261</u> |



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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

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 (*Government Auditing Standards*), 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, 2023, and the related notes to the financial statements, which collectively comprise Reinsurance's basic financial statements and have issued our report thereon dated December 14, 2023.

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 or significant deficiencies may exist that were not 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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Pennsylvania Reinsurance Program

Page 22

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 Axlerod LLC

ZELENKOFKSKE AXELROD LLC

Harrisburg, PA
December 14, 2023