



The Hospital + Healthsystem Association of Pennsylvania
Leading for Better Health

**YEARS ENDED
DECEMBER 31, 2021 AND 2020**



CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS
A Professional Corporation

***THE HOSPITAL AND HEALTHSYSTEM ASSOCIATION OF PENNSYLVANIA
AND CONTROLLED ENTITIES***

YEARS ENDED DECEMBER 31, 2021 AND 2020

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**THE HOSPITAL AND HEALTHSYSTEM ASSOCIATION OF PENNSYLVANIA
AND CONTROLLED ENTITIES**

YEARS ENDED DECEMBER 31, 2021 AND 2020

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Independent Auditor's Report

Board of Directors
The Hospital and Healthsystem
Association of Pennsylvania
Harrisburg, Pennsylvania

Opinion

We have audited the accompanying consolidated financial statements of The Hospital and Healthsystem Association of Pennsylvania and controlled entities (collectively, the Association), which comprise the consolidated balance sheets as of December 31, 2021 and 2020 and the related consolidated statements of operations and changes in net assets, functional expenses and cash flows for the years then ended and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Hospital and Healthsystem Association of Pennsylvania and controlled entities as of December 31, 2021 and 2020, and the results of their operations, changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits 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 Consolidated Financial Statements section of our report. We are required to be independent of the Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these consolidated 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 consolidated 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 consolidated 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 Association'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association'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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying 2021 and 2020 consolidating information contained in the schedules on pages 31 through 37 and the HAP and Education Services statements of operations and changes in net assets on pages 38 and 39 are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies and are not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards on page 40, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, is also presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the

responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 9, 2022 on our consideration of the Association'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 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 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 Association's internal control over financial reporting and compliance.

Brown Schultz Steidman & Fritz

Camp Hill, Pennsylvania
May 9, 2022

**THE HOSPITAL AND HEALTHSYSTEM ASSOCIATION OF PENNSYLVANIA
AND CONTROLLED ENTITIES**

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2021 AND 2020

	2021	2020
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,280,262	\$ 2,139,454
Short-term investments	127,073	75,313
Accounts receivable, net of an allowance for doubtful accounts of approximately \$16,000 and \$119,000, in 2021 and 2020, respectively	518,772	1,219,809
Related party receivable	52,000	
Prepaid expenses and other current assets	230,179	255,693
Total current assets	4,208,286	3,690,269
Investments	33,630,698	31,816,705
Property and equipment, net	992,180	934,729
Other assets	3,433,001	3,440,777
Investment in affiliate, equity method	33,462	35,058
Total assets	\$ 42,297,627	\$ 39,917,538
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of capital lease obligations	\$ 6,457	\$ 6,247
Accounts payable	414,981	551,340
Unearned revenue	426,879	189,526
Accrued:		
Vacation	364,152	349,377
Expenses and other current liabilities	2,323,336	1,725,650
Total current liabilities	3,535,805	2,822,140
Capital lease obligations, net of current portion	12,442	18,899
Postretirement benefit obligation	30,717	32,197
Deferred compensation payable	1,469,179	1,359,788
Paycheck Protection Program loans		150,794
Long-term incentive payable	44,100	
Total liabilities	5,092,243	4,383,818
Net assets without donor restrictions:		
Operating	36,040,448	34,417,722
Board designated	1,164,936	1,115,998
Total net assets without donor restrictions	37,205,384	35,533,720
Total liabilities and net assets	\$ 42,297,627	\$ 39,917,538

See notes to consolidated financial statements.

**THE HOSPITAL AND HEALTHSYSTEM ASSOCIATION OF PENNSYLVANIA
AND CONTROLLED ENTITIES**

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
Unrestricted revenues, gains and other support:		
Institutional dues	\$ 6,402,588	\$ 6,790,125
Service and program fees	4,766,947	2,699,759
Contract and grant revenue	3,702,557	6,999,320
Investment income:		
Interest and dividend income	816,577	531,927
Net realized gains on the sale of investments	1,861,496	809,388
Net unrealized gains on investments	547,757	1,995,604
Other	1,021,884	843,400
Contribution income	277,670	204,204
Interest income, other	3,603	15,334
	19,401,079	20,889,061
Expenses:		
Program:		
Grants and contracts	3,912,121	6,014,042
Continuing services	9,570,846	10,455,153
Total program expenses	13,482,967	16,469,195
Management and general HAPevolve expenses	2,525,223 1,502,368	2,906,643 1,272,446
	17,510,558	20,648,284
Income tax (expense) benefit	(216,484)	52,583
Revenues in excess of expenses	1,674,037	293,360
Postretirement benefit liability adjustments	(2,373)	(3,202)
	1,671,664	290,158
Net assets without donor restrictions:		
Beginning of year	35,533,720	35,243,562
End of year	\$ 37,205,384	\$ 35,533,720

See notes to consolidated financial statements.

**THE HOSPITAL AND HEALTHSYSTEM ASSOCIATION OF PENNSYLVANIA
AND CONTROLLED ENTITIES**

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2021

	Grants and contracts	Continuing services	Total program	Management and general	Total expenses
Salaries, payroll taxes and employee benefits	\$ 660,655	\$ 6,770,184	\$ 7,430,839	\$ 1,399,196	\$ 8,830,035
Program services	3,058,787	235,307	3,294,094		3,294,094
Travel and meeting expense	2,599	193,949	196,548	8,844	205,392
Supplies, telephone, software and postage	11,111	107,906	119,017	113,268	232,285
Data processing	60,097	101,869	161,966		161,966
Professional dues and subscriptions	15,257	82,454	97,711	10,409	108,120
Miscellaneous expense	2,459	122,972	125,431	60,128	185,559
Office maintenance and operations	40,024	30,429	70,453	495,171	565,624
Professional fees	45,325	629,659	674,984	196,916	871,900
Depreciation and amortization		16,516	16,516	239,517	256,033
Digital online community		454,000	454,000		454,000
Campaign contribution expense		315,515	315,515		315,515
Printing and production	15,807	10,340	26,147	1,774	27,921
Independent expenditures		499,746	499,746		499,746
Total functional expense	\$ 3,912,121	\$ 9,570,846	\$ 13,482,967	\$ 2,525,223	16,008,190
HAPevolve expenses					1,502,368
Total expenses					\$ 17,510,558

See notes to consolidated financial statements.

**THE HOSPITAL AND HEALTHSYSTEM ASSOCIATION OF PENNSYLVANIA
AND CONTROLLED ENTITIES**

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2020

	Grants and contracts	Continuing services	Total program	Management and general	Total expenses
Salaries, payroll taxes and employee benefits	\$ 1,498,913	\$ 6,022,934	\$ 7,521,847	\$ 1,655,211	\$ 9,177,058
Program services	4,274,158	116,110	4,390,268	356	4,390,624
Travel and meeting expense	11,946	61,153	73,099	12,397	85,496
Supplies, telephone, software and postage	15,927	66,343	82,270	78,487	160,757
Data processing	76,090	82,027	158,117	22	158,139
Professional dues and subscriptions	22,280	93,286	115,566	8,957	124,523
Miscellaneous expense		162,359	162,359	180,793	343,152
Office maintenance and operations	67,277	31,031	98,308	576,405	674,713
Professional fees	47,193	812,651	859,844	138,837	998,681
Depreciation and amortization		8,407	8,407	252,984	261,391
Digital online community		402,605	402,605		402,605
Campaign contribution expense		223,185	223,185		223,185
Printing and production	258	41,424	41,682	2,194	43,876
COVID-19 media campaign		1,934,629	1,934,629		1,934,629
Independent expenditures		397,009	397,009		397,009
Total functional expense	\$ 6,014,042	\$ 10,455,153	\$ 16,469,195	\$ 2,906,643	19,375,838
HAPevolve expenses					1,272,446
Total expenses					\$ 20,648,284

See notes to consolidated financial statements.

**THE HOSPITAL AND HEALTHSYSTEM ASSOCIATION OF PENNSYLVANIA
AND CONTROLLED ENTITIES**

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
Cash flows from operating activities:		
Increase in net assets	\$ 1,671,664	\$ 290,158
Adjustments:		
Depreciation and amortization	260,051	265,409
Forgiveness of Paycheck Protection Program loans	(150,794)	
Net realized and unrealized gains from investments	(2,409,253)	(2,804,992)
Postretirement benefit liability adjustments	2,373	3,202
Changes in assets and liabilities:		
Accounts and other receivables	701,037	610,592
Related party receivable	(52,000)	
Prepaid expenses and other current assets	25,514	(48,132)
Other assets	7,776	(152,581)
Investment in affiliate	1,596	(67)
Accounts payable, unearned revenue, accrued expenses and other current liabilities	713,455	(1,206,772)
Postretirement benefit obligation	(3,853)	(4,038)
Deferred compensation payable	109,391	136,109
Long-term incentive payable	44,100	
	(750,607)	(3,201,270)
Total adjustments		
	921,057	(2,911,112)
Cash flows from investing activities:		
Sales proceeds from investments	4,843,731	1,830,193
Purchases of:		
Investments	(4,300,231)	(1,926,000)
Property, furniture and equipment	(317,502)	(45,937)
	225,998	(141,744)
Net cash provided by (used in) investing activities		

(continued)

**THE HOSPITAL AND HEALTHSYSTEM ASSOCIATION OF PENNSYLVANIA
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CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
Cash flows from financing activities:		
Proceeds from Paycheck Protection Program loans		\$ 150,794
Payment of capital lease obligations	\$ (6,247)	(5,905)
Net cash provided by (used in) financing activities	(6,247)	144,889
Increase (decrease) in cash and cash equivalents	1,140,808	(2,907,967)
Cash and cash equivalents:		
Beginning of year	2,139,454	5,047,421
End of year	\$ 3,280,262	\$ 2,139,454
Supplementary disclosure of cash flow information:		
Interest paid	\$ 1,296	\$ 4,980
Supplementary disclosure of noncash investing and financing transactions:		
Equipment acquired under capital lease		28,623
Noncash operating activity:		
During 2021, the Association received forgiveness of its Paycheck Protection Program (PPP) loans of \$150,794.		

See notes to consolidated financial statements.

THE HOSPITAL AND HEALTHSYSTEM ASSOCIATION OF PENNSYLVANIA AND CONTROLLED ENTITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2021 AND 2020

1. Nature of operations and summary of significant accounting policies:

Nature of operations:

The Hospital and Healthsystem Association of Pennsylvania (HAP) is a not-for-profit statewide professional trade organization located in Harrisburg, Pennsylvania, representing approximately 240 hospitals and health systems. HAP advocates for its members and provides services in areas of healthcare policy development, research and education and representation primarily with the administrative, judicial and legislative branches of state government.

HAP has four controlled entities: HAP Education and Research Services (Education Services), The Hospital and Healthsystem Association of Pennsylvania Political Action Committee (HAPAC), The Hospital and Healthsystem Association of Pennsylvania Political Action Committee-Federal (HAPAC-Federal) and Better Healthcare PA (BHCPA). These organizations are deemed to be controlled entities for financial reporting purposes because HAP has an economic interest and control over these organizations, as evidenced by overlapping board representation.

Education Services was organized primarily to provide education programs for hospitals, related organizations and individuals in the healthcare field.

HAPAC, HAPAC-Federal and BHCPA solicit contributions annually from individuals concerned with promoting the interest of Pennsylvania hospitals and health systems. Contributions received that are undesignated to either HAPAC or HAPAC-Federal are distributed to these entities based on approval by a common board of directors.

HAP also has two wholly-owned subsidiaries: HAPevolve, Inc. (formerly known as HAP Services, Inc.) (HAPevolve) and Hospital Management Services, LLC (HMS).

HAP Services, Inc. transitioned to HAPevolve and began operations in September 2017. HAPevolve provides on-demand solutions to alleviate legal, regulatory, fiscal and operational challenges within hospitals and healthcare organizations.

HMS was formed and began operations on January 25, 2011 as a limited liability corporation. HAP is the sole member of HMS. HMS provides management and administrative services in support of a statewide medical assistance initiative.

**THE HOSPITAL AND HEALTHSYSTEM ASSOCIATION OF PENNSYLVANIA
AND CONTROLLED ENTITIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

1. Nature of operations and summary of significant accounting policies (continued):

Basis of consolidation:

The consolidated financial statements include the accounts of HAP and its wholly-owned subsidiaries, which include HAPevolve and HMS, and its controlled entities, which include Education Services, HAPAC, HAPAC-Federal and BHCPA (collectively, the Association). All significant intercompany transactions and balances between these entities have been eliminated in consolidation. Investments in other entities between 20% and 50% are accounted for under the equity method of accounting.

Basis of presentation:

Financial statement presentation follows the requirements of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. Under FASB ASC 958, the Association is required to report information regarding its financial position and activities in two classes of net assets: without donor restrictions and with donor restrictions. At December 31, 2021 and 2020, the Association had no net assets with donor restrictions.

Net assets without donor restrictions:

Net assets without donor restrictions contain no donor-imposed restrictions, or the donor-imposed restrictions have expired. Net assets without donor restrictions, but subject to self-imposed limits by action of the board, are classified as designated net assets without donor restrictions. The board may earmark net assets for future programs, purchase of fixed assets or other uses.

In 1998, the Delaware Valley Health Council, Inc. (DVHC) was merged into and became a regional council for HAP. Net assets transferred into HAP as a result of that merger have been board designated to be used at the discretion of the Southeast Pennsylvania Regional Advisory Board (formerly DVHC) for approval by the HAP board. As of December 31, 2021 and 2020, these net assets totaled \$1,097,846 and \$1,048,908, respectively, and are classified as board-designated net assets without donor restrictions in the accompanying consolidated balance sheets.

In 2014, the HAP board designated \$628,956 to be used for the new quality initiative program within Education Services. The remaining balance of these board designated funds was \$67,090 at both December 31, 2021 and 2020.

**THE HOSPITAL AND HEALTHSYSTEM ASSOCIATION OF PENNSYLVANIA
AND CONTROLLED ENTITIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

1. Nature of operations and summary of significant accounting policies (continued):

Use of estimates:

The preparation of financial statements in accordance 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 during the reporting period. Actual results could differ from those estimates. Significant estimates affecting these consolidated financial statements include management's allocation of functional expenses, management's allocation of administrative expenses to grant agreements, the allowance for uncollectible receivables, the useful lives of fixed assets and accrued postretirement obligations.

Cash and cash equivalents:

The Association considers all highly liquid instruments purchased with an original maturity of three months or less when purchased and not held with investment brokers for investing purposes to be cash equivalents.

Accounts receivable:

The Association's accounts receivable are unsecured and reported at net realizable value. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. The allowance for doubtful accounts is estimated based upon a periodic review of individual accounts.

Investments and investment risk:

Investments in mutual funds with readily determinable fair values are measured at fair value in the accompanying consolidated balance sheets. Cash and cash equivalents are carried at cost, which approximates fair value. Investment income (including realized gains and losses on investments, unrealized gains and losses on investments, interest and dividends) is included in the determination of revenues in excess of (less than) expenses unless the income or loss is restricted by the donor or law. Interest income is measured as earned on the accrual basis. Dividends are measured on the ex-dividend date. Purchases and sales of securities and realized gains and losses are recorded on a trade-date basis.

**THE HOSPITAL AND HEALTHSYSTEM ASSOCIATION OF PENNSYLVANIA
AND CONTROLLED ENTITIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

1. Nature of operations and summary of significant accounting policies (continued):

Investments and investment risk:

The Association's investments are comprised of a variety of financial instruments and are managed by investment advisors. The fair values reported in the consolidated balance sheets are subject to various risks including custodial risk, changes in the equity markets, the interest rate environment and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the accompanying consolidated financial statements could change materially in the near term.

Property, furniture and equipment:

The Association capitalizes property, furniture and equipment acquisitions in excess of \$1,500 at cost. Depreciation is computed using the straight-line method based on the estimated useful life of the depreciable asset. Equipment under capital lease obligations is amortized using the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation.

Impairment of property, furniture and equipment:

Property, furniture and equipment are evaluated for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. If expected cash flows are less than carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of the assets. No impairment losses were recognized in 2021 and 2020.

Revenue recognition:

The Association generates revenue from membership dues, service and program fees, contract and grant revenue, investment income and contributions.

**THE HOSPITAL AND HEALTHSYSTEM ASSOCIATION OF PENNSYLVANIA
AND CONTROLLED ENTITIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

1. Nature of operations and summary of significant accounting policies (continued):

Revenue recognition:

Membership dues:

The Association offers membership to hospitals in Pennsylvania. Membership rates for hospitals are determined based on the member hospital's net patient revenue. Other entities and businesses can be associate members of the Association for a flat fee. Dues are billed annually to the member hospitals and associate members at the beginning of each year. The benefits of membership include advocacy and policy/regulatory guidance, daily/weekly healthcare related updates to members through the HAP Daily and HAP Update e-mail communications and access to the membership directory. The newsletters are not a required part of the membership fee. The membership fees would be collected regardless of HAP providing these updates; thus, revenue is earned upon receipt of the revenue. Dues are recognized as revenue in the applicable membership year. Dues received prior to year end that are applicable to the subsequent year are recorded as unearned revenue.

Service and program fees:

Education Services offers various training events and webinars. Individuals pay a registration fee to attend the training or view the webinar. Sponsorship opportunities are also available for these events. When the event is held, Education Services has fulfilled its performance obligation to the registrants and the sponsors and recognizes revenue at that point in time. Fees received prior to year end that are applicable to the education event being held in the subsequent year are recorded as unearned revenue.

HMS earns program fees for its management and administration of the statewide medical assistance initiative. Each quarter of the initiative's fiscal year, HMS performs the calculations necessary to determine the distributions due to or from participating hospitals and then administers the distribution and collection of the funds. The fee is calculated based on each participating hospital's net gain or loss and is recognized when the distribution is made as that signifies that HMS has fulfilled its performance obligation to the participating hospitals.

**THE HOSPITAL AND HEALTHSYSTEM ASSOCIATION OF PENNSYLVANIA
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

1. Nature of operations and summary of significant accounting policies (continued):

Revenue recognition:

Service and program fees:

HAPevolve's service fees are generated from partner contracts and consulting services. The partner contracts grant the partner access to HAP's membership list. Endorsed partner contracts have two components. The first component is a flat fee, which is recognized when the contract is signed as the key deliverable is access to the membership list. The second component is a revenue share based on the new business the partner receives from HAP members. This revenue is recognized when received. Industry partners are similar to endorsed partners, but there is no revenue sharing component to these contracts. HAPevolve also signs specific consulting services contracts with entities. Each contract outlines the specific services HAPevolve is to perform, the term of the contract and the deliverables that generate payments. HAPevolve recognizes revenue in accordance with the terms of the contract as work is performed. HAP has similar endorsed partner contracts which are recognized in the same manner as HAPevolve's endorsed partner contracts.

HAP also provides management and administrative services to internal and external organizations. The contract includes a flat monthly fee for services performed on behalf of the third party. Revenue is recognized over time as services are performed.

Contract and grant revenue:

HAP receives federal funding from the Department of Health through various grant agreements. The grants are generally cost reimbursement based. HAP performs the work outlined in the grant agreement and submits for reimbursement the allowable costs incurred to fulfill the performance obligations outlined in the agreements. HAP recognizes revenue each month for the allowable expenses incurred. Allowable expenses are outlined in the budgets included in each grant agreement. In 2020, a portion of HAP's federal funding was received in advance of HAP completing work on the contract. HAP recognized revenue to the extent that it incurred appropriate expenses and deferred any unspent funds to next year.

HAP had a federal contract with the Center for Medicare & Medicaid Services (CMS) which ended in 2020. The contract was based on a fixed fee. HAP has satisfied all performance obligations and recognized the remaining contract revenue in 2020.

The Association does not provide financing for customers. In instances where payment is received in advance of the service being performed, the Association has determined that contracts do not include a significant financing component.

**THE HOSPITAL AND HEALTHSYSTEM ASSOCIATION OF PENNSYLVANIA
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

1. Nature of operations and summary of significant accounting policies (continued):

Revenue recognition:

Investment income:

HAP has several investment accounts with various financial institutions. Interest, dividends, fees and gains and losses are recognized when earned.

Contributions:

BHCPA, HAPAC and HAPAC-Federal solicit contributions annually from individuals concerned with promoting the interest of Pennsylvania hospitals and healthsystems. Contributions are considered non-exchange transactions and are recognized as revenue when received or pledged, barring any conditions placed on the contributions. Contributions are recorded as net assets with donor restrictions or net assets without donor restrictions, depending on the existence of donor restrictions. Support that is restricted by the donor is reported as an increase in donor-restricted net assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction are accomplished, donor-restricted net assets are reclassified to net assets without donor restriction and reported in the statements of activities as net assets released from restrictions. The Association had no donor-restricted contributions in 2021 and 2020.

Income taxes:

HAP is a not-for-profit corporation organized under the laws of Pennsylvania and is exempt from federal income taxes under Section 501(c)(6) of the Internal Revenue Code.

HAPevolve is a for-profit corporation subject to federal and state income taxes.

HMS is a for-profit limited liability company of which HAP is the sole member. HAP reports the pass-through items from HMS on Form 990.

Education Services is a not-for-profit corporation organized under the laws of Pennsylvania and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

HAPAC, HAPAC-Federal and BHCPA are tax-exempt organizations pursuant to Section 527 of the Internal Revenue Code. Interest income less an allowable deduction of \$100 is subject to the maximum federal income tax rate.

**THE HOSPITAL AND HEALTHSYSTEM ASSOCIATION OF PENNSYLVANIA
AND CONTROLLED ENTITIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

1. Nature of operations and summary of significant accounting policies (continued):

Income taxes:

Income taxes are provided for tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due or refundable and deferred income taxes. Income tax expense or benefit is the tax payable or refundable for the period plus or minus the change in deferred income taxes.

Deferred tax assets and liabilities are established for the temporary differences between the financial reporting basis and tax basis of HAPevolve's assets and liabilities and for the effect of loss carry forwards at enacted tax rates expected to be in effect when such amounts are realized or settled. The tax effect of temporary differences for net operating losses resulted in a deferred tax asset at both December 31, 2021 and 2020, which are included in other assets on the balance sheets.

Functional expenses:

Expenses are summarized and categorized based upon their functional classification as either a program or management and general service. Costs are charged directly to the related program or management and general service. Costs attributable to more than one functional category are allocated based on management's estimate of staff time spent on each program or supporting service.

Reclassifications:

Certain amounts in the 2020 financial statements have been reclassified to conform to the 2021 presentation.

Recently issued accounting standards:

FASB Accounting Standards Update (ASU) 2016-02, *Leases*, is effective for the Association's 2022 year end and requires that all leases with terms of more than 12 months be recognized as assets and liabilities on the statement of financial position. Recognition of these lease assets and lease liabilities represents a change from previous generally accepted accounting principles (GAAP), which did not require lease assets and lease liabilities to be recognized for operating leases. Qualitative disclosures, along with specific quantitative disclosures, will be required to provide enough information to supplement the amounts recorded in the financial statements so that users can understand more about the nature of an entity's leasing activities.

**THE HOSPITAL AND HEALTHSYSTEM ASSOCIATION OF PENNSYLVANIA
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

1. Nature of operations and summary of significant accounting policies (continued):

Recently issued accounting standards:

The Association will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that the Association may elect to apply. At adoption, the Association will recognize a right-of-use asset and a lease liability initially measured at the present value of its operating lease payments. The Association is currently evaluating the impacts of adopting this guidance on its financial position, results of operations and cash flows.

2. Significant concentrations of credit risk:

Cash and cash equivalents on deposit in interest-bearing accounts with any one financial institution are federally insured. The Association had balances in interest-bearing accounts in excess of Federal Deposit Insurance Corporation (FDIC) coverage during the years ended December 31, 2021 and 2020. At December 31, 2021, approximately \$2,812,000 of cash and cash equivalents were in excess of FDIC limits.

At December 31, 2021 and 2020, approximately 53% and 41%, respectively, of outstanding accounts receivables were due from three and two entities, respectively.

Approximately 14% and 16% of the Association's revenue in 2021 and 2020, respectively, is derived from grant agreements and contracts from one grantor.

**THE HOSPITAL AND HEALTHSYSTEM ASSOCIATION OF PENNSYLVANIA
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3. Financial assets and liquidity resources:

The Association's primary cash flows are from membership dues, payments on grants and contracts and payments on service and program fees, which are received throughout the year. As of December 31, 2021 and 2020, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses and purchases of property and equipment were as follows:

	2021	2020
Financial assets:		
Cash and cash equivalents	\$ 3,280,262	\$ 2,139,454
Accounts receivable, net of allowance	518,772	1,219,809
Related party receivable	52,000	
Total financial assets available within one year	3,851,034	3,359,263
Liquidity resources, other investments	32,288,592	30,532,230
Board designated net assets	(1,164,936)	(1,115,998)
Total financial assets and liquidity resources available within one year	\$ 34,974,690	\$ 32,775,495

The Association maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities and other obligations come due.

4. Fair value measurements:

The Association measures its investments at fair value in accordance with accounting principles generally accepted in the United States of America.

Fair value is defined as the price that would be received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The framework established for measuring fair value includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement.

**THE HOSPITAL AND HEALTHSYSTEM ASSOCIATION OF PENNSYLVANIA
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

4. Fair value measurements (continued):

The levels of the fair value hierarchy are as follows:

Level 1 - Fair value is based on unadjusted quoted prices in active markets that are accessible to the Association for identical assets. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 - Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset through corroboration with observable market data. Level 2 inputs include quoted market prices for similar assets, quoted market prices in markets that are not active for identical or similar assets and other observable inputs.

Level 3 - Fair value is based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows and other similar techniques.

The fair value of the Association's investments was measured using the following inputs at December 31, 2021 and 2020:

	2021	2020
Short-term investments, cash and cash equivalents	\$ 127,073	\$ 75,313
Level 1, quoted prices:		
Mutual funds:		
Core plus fixed income	\$ 3,607,340	\$ 3,505,383
Intermediate duration fixed income	3,742,249	3,703,222
Short duration fixed income	6,043,646	5,152,119
Large cap equity	9,629,294	9,337,970
Mid cap equity	2,975	1,473
Small cap equity	1,636,898	1,518,739
International equity	1,539,290	1,536,664
World large stock	49,332	52,977
Balanced fund	1,992,166	1,813,573
Corporate bond	47,858	136,231
Global growth fund	1,479,069	1,586,429
Global balanced fund	3,860,581	3,471,925
Total mutual funds	\$ 33,630,698	\$ 31,816,705

**THE HOSPITAL AND HEALTHSYSTEM ASSOCIATION OF PENNSYLVANIA
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

4. Fair value measurements (continued):

The carrying amounts of cash and cash equivalents and short-term investments approximate fair value at December 31, 2021 and 2020 because of the short maturity of these instruments.

Mutual funds are valued at the quoted net asset value of shares held by the Association at year end.

The Association did not have any financial assets or financial liabilities measured at fair value on a non-recurring basis at December 31, 2021 and 2020.

5. Q³ Health Innovation Partners, LLC:

On June 14, 2018, the Association entered into a limited liability company agreement with two other state hospital associations to form Q³ Health Innovation Partners, LLC (Q³HIP). The Association has a 33-1/3% investment in Q³HIP and accounts for its investment using the equity method. Q³HIP has \$194,787 of assets, \$94,400 of liabilities and \$100,387 of equity at December 31, 2021. The balance of the Association's investment in Q³HIP is \$33,462 at December 31, 2021. At December 31, 2021, \$52,000 was receivable from Q³HIP.

Q³HIP was formed for nonprofit purposes, and its principal purpose is to provide a broad array of quality improvement products and services to providers and stakeholders in the healthcare industry.

6. Property, furniture and equipment:

Property, furniture and equipment consisted of the following at December 31, 2021 and 2020:

	2021	2020
Building and building improvements	\$ 440,056	\$ 407,150
Equipment	527,152	524,845
Furniture and fixtures	627,604	627,604
Software	1,279,001	996,711
Equipment under capital lease	32,696	32,696
Total	2,906,509	2,589,006
Less accumulated depreciation and amortization	1,914,329	1,654,277
Property, furniture and equipment, net	\$ 992,180	\$ 934,729

Accumulated amortization on equipment under capital lease was \$14,844 and \$8,304 at December 31, 2021 and 2020, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

7. Other assets:

Other assets consisted of the following at December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Cash surrender value of officers' life insurance	\$ 3,083,864	\$ 2,982,139
Deferred tax asset	286,713	391,384
Security deposit	<u>62,424</u>	<u>67,254</u>
Total	<u><u>\$ 3,433,001</u></u>	<u><u>\$ 3,440,777</u></u>

8. Accrued expenses and other current liabilities:

Accrued expenses and other current liabilities at December 31, 2021 and 2020 consisted of the following:

	<u>2021</u>	<u>2020</u>
Accrued payroll and severance	\$ 873,933	\$ 662,755
Accrued 401(k) employer contribution	337,393	343,688
Current portion of postretirement benefit obligation	2,659	2,620
Accrued rent	181,706	219,653
Accrued member dues rebate	707,505	346,200
Other	<u>220,140</u>	<u>150,734</u>
Total	<u><u>\$ 2,323,336</u></u>	<u><u>\$ 1,725,650</u></u>

**THE HOSPITAL AND HEALTHSYSTEM ASSOCIATION OF PENNSYLVANIA
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

9. Leases:

Capital lease obligations:

The Association leases certain equipment accounted for as capital leased assets. Future minimum lease payments for assets under capital leases are as follows at December 31, 2021:

Year ended December 31,	Amount
2022	\$ 7,370
2023	6,600
2024	6,600
Total future minimum lease payments	20,570
Less amount representing interest	1,671
Present value of net minimum lease payments	\$ 18,899

Operating leases:

The Association has a noncancelable operating lease for office space (the Agreement). The Agreement requires minimum lease payments during the initial lease period ending in September 2023, plus additional rent related to increased taxes and operating expenses over the base year, commencing in 2014. The Agreement also includes a renewal option for a five-year period beyond the initial term.

The Association has entered into noncancelable operating leases for equipment and storage. These leases require minimum lease payments through August 2022.

In April 2016, the Association entered into an office lease with an unrelated party in Harrisburg, Pennsylvania. The office lease is effective from August 1, 2016 through July 31, 2026. Initial minimum monthly payments start at \$28,392 on January 1, 2017 and increase approximately 2% on August 1 of each year. The lease also calls for the payment of a portion of the property taxes and operating expenses of the leased space and a security deposit of approximately \$62,000. The Association has the option to extend the lease for two additional periods of three years each.

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9. Leases (continued):

Operating leases:

The Association also entered into sublease agreements for office space. Total rent expense related to these operating leases in 2021 and 2020 was as follows:

	2021	2020
Rent expense	\$ 620,742	\$ 744,825
Sublease income	(172,569)	(197,081)
Net rent expense	\$ 448,173	\$ 547,744

Total future minimum rentals under noncancelable subleases are \$274,120 at December 31, 2021.

The future minimum rental payments under the noncancelable operating leases in effect at December 31, 2021 are as follows:

Year ended December 31,	Amount
2022	\$ 550,442
2023	516,986
2024	394,629
2025	402,522
2026	237,521
	\$ 2,102,100

10. Employee benefit plans:

Defined contribution plan:

The Association sponsors a 401(k) defined contribution plan, which covers employees of HAP that have met certain eligibility requirements, as defined by the plan.

**THE HOSPITAL AND HEALTHSYSTEM ASSOCIATION OF PENNSYLVANIA
AND CONTROLLED ENTITIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

10. Employee benefit plans (continued):

Defined contribution plan:

The Association matches each 1% of employee deferrals up to a maximum of 4%. In addition, eligible employees employed as of December 31 of each year will receive an additional 5% contribution by the Association. The Association contributed \$612,358 and \$629,374 in 2021 and 2020, respectively, to the plan.

Executive flexible benefit plan:

The Association established an executive flexible benefit plan (the EFB Plan) to provide designated executives with the option to elect flexible benefits in accordance with the provisions of the EFB Plan. Effective November 30, 2016, the Association froze the EFB Plan and replaced this frozen plan with a 457(f) Nonqualified Deferred Compensation Plan (the 457(f) Plan) beginning January 1, 2017 for designated executives. The Association makes an annual contribution to the 457(f) Plan. In addition, the Association established a 457(b) Eligible Deferred Compensation Plan (the 457(b) Plan) that designated executives can elect to make additional retirement contributions. The Association does not make a contribution to the 457(b) Plan.

The 457(f) Plan and 457(b) Plan, and previously the EFB Plan, have deferred compensation payable recognized in the Association's consolidated balance sheets of \$1,469,179 and \$1,359,788 at December 31, 2021 and 2020, respectively. The investments related to the 457(f) Plan and 457(b) Plan, and previously the EFB Plan, are included in investments.

Defined benefit postretirement plan:

The Association sponsors a defined benefit postretirement noncontributory life insurance plan (the Postretirement Plan) covering employees age 55 and over and who retire with 15 or more years of continuous service. The benefit is 20% of the amount for which the employee was insured before retirement, subject to a minimum of \$1,000 and a maximum of \$5,000. Coverage extends only to basic term life. The Postretirement Plan is unfunded.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

10. Employee benefit plans (continued):

The following table provides a reconciliation of postretirement benefit obligations, plan assets and funding status amounts recognized in the Association's consolidated financial statements for the years ended December 31, 2021 and 2020:

	2021	2020
Change in postretirement benefit obligation:		
Postretirement benefit obligation, beginning of year	\$ 34,817	\$ 35,731
Service cost	756	870
Interest cost	849	978
Actuarial (gain) loss	(96)	110
Benefits paid	(2,950)	(2,872)
Postretirement benefit obligation, end of year	33,376	34,817
Change in plan assets:		
Fair value of plan assets, beginning of year	-	-
Employer contributions	2,950	2,872
Benefits paid	(2,950)	(2,872)
Fair value of plan assets, end of year	-	-
Funded status	\$ (33,376)	\$ (34,817)
Accumulated benefit obligation	\$ 33,376	\$ 34,817

The funded status of the Postretirement Plan has been classified in the accompanying consolidated balance sheets at December 31, 2021 and 2020 as follows:

	2021	2020
Accrued expenses and other current liabilities	\$ 2,659	\$ 2,620
Postretirement benefit obligation	30,717	32,197
Total	\$ 33,376	\$ 34,817

**THE HOSPITAL AND HEALTHSYSTEM ASSOCIATION OF PENNSYLVANIA
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

10. Employee benefit plans (continued):

The components of net periodic postretirement benefit credit for 2021 and 2020 were as follows:

	2021	2020
Service cost	\$ 756	\$ 870
Interest cost	849	978
Amortization of unrecognized net gain	(2,469)	(3,092)
 Total net periodic postretirement benefit credit	 \$ (864)	 \$ (1,244)

A net actuarial gain of \$36,476 and prior service credit of \$0 at December 31, 2021 and a net actuarial gain of \$38,849 and prior service credit of \$0 at December 31, 2020 represent the unrecognized component of net periodic postretirement benefit credit included in net assets without donor restrictions.

The estimated amortization of net actuarial gain expected to be recognized in net periodic postretirement benefit credit in 2022 is \$2,367. The estimated amortization of prior service credit expected to be recognized in net periodic postretirement benefit cost in 2022 is \$0.

The Association expects to contribute approximately \$2,659 to the Postretirement Plan in 2022.

The weighted-average assumptions used in computing the benefit obligation at December 31, 2021 and 2020 were as follows:

	2021	2020
Discount rate	2.75 %	2.50 %
Rate of compensation increase	N/A	N/A

The weighted-average assumptions used in the measurement of the Association's net periodic postretirement benefit cost at December 31, 2021 and 2020 were as follows:

	2021	2020
Discount rate	2.75 %	2.50 %
Expected long-term return on plan assets	N/A	N/A
Rate of compensation increase	N/A	N/A

**THE HOSPITAL AND HEALTHSYSTEM ASSOCIATION OF PENNSYLVANIA
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

10. Employee benefit plans (continued):

The following benefit payments, which reflect expected future services, as appropriate, are expected to be paid:

<u>Year ended December 31,</u>	<u>Amount</u>
2022	\$ 2,659
2023	2,412
2024	2,270
2025	2,087
2026	1,936
2027-2031	8,362

11. Income taxes:

The provision for income tax expense (benefit) consisted of the following at December 31:

	<u>2021</u>	<u>2020</u>
Taxes:		
Current:		
Federal	\$ 33,891	
State	77,922	
Deferred:		
Federal	111,212	\$ (34,388)
State	(6,541)	(18,195)
	<u>\$ 216,484</u>	<u>\$ (52,583)</u>

The deferred tax asset consisted of the following at December 31:

	<u>2021</u>	<u>2020</u>
Net operating loss carryforwards:		
Federal	\$ 144,987	\$ 256,199
State	141,726	135,185
	<u>\$ 286,713</u>	<u>\$ 391,384</u>

The net operating loss carryforwards expire at various dates through 2037.

***THE HOSPITAL AND HEALTHSYSTEM ASSOCIATION OF PENNSYLVANIA
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

12. Commitments and contingencies:

The Association is subject to pending and threatened lawsuits, including claims for monetary damages, in the normal course of business. Currently, no such legal proceedings have been initiated against the Association.

13. Paycheck Protection Program loans:

In April 2020, HAPevolve and Education Services secured and received funding totaling \$123,637 and \$27,157, respectively, from the Paycheck Protection Program, a government program authorizing loans to small businesses and charitable not-for-profit organizations to cover payroll costs, rent and utility costs over a 24-week period. As of December 31, 2021, the full amount has been recognized as other revenue since the conditions upon which the loan proceeds were provided have been substantially met, including all of the qualified expenses being incurred in the proper period and the Association being notified of the total forgiveness.

14. Risks and uncertainties:

The Association is currently subject to risks and uncertainties resulting from the novel COVID-19 pandemic. While the Association expects the matter may negatively impact its results, the extent of the impact of COVID-19 on the Association's operational and financial performance will depend on future developments, including the duration and spread of the outbreak, related travel advisories and restrictions and the impact of COVID-19 on overall demand for the Association's services, all of which are highly uncertain and cannot be predicted.

15. Capital contribution:

In 2021, HAP made a capital contribution to HAPevolve of \$1,157,257 in lieu of payment of that amount of its related party receivable from HAPevolve.

16. Subsequent events:

The Association has evaluated subsequent events through May 9, 2022, the date which the financial statements were available to be issued.

**THE HOSPITAL AND HEALTHSYSTEM ASSOCIATION OF PENNSYLVANIA
AND CONTROLLED ENTITIES**

SCHEDULE OF CONSOLIDATING INFORMATION, BALANCE SHEET
DECEMBER 31, 2021
(See independent auditor's report)

	ASSETS								
	<u>Consolidated</u>	<u>Eliminations</u>	<u>HAP</u>	<u>HAPevolve</u>	<u>HMS</u>	<u>HAPAC</u>	<u>HAPAC- Federal</u>	<u>BHCPA</u>	<u>Education Services</u>
Current assets:									
Cash and cash equivalents	\$ 3,280,262		\$ 152,230	\$ 1,074,893	\$ 1,941,872	\$ 90,863	\$ 13,375	\$ 28	\$ 7,001
Short-term investments	127,073		125,363						1,710
Accounts receivable, net of allowance for doubtful accounts of approximately \$16,000	518,772		287,695	186,764	20,911				23,402
Related party receivable	52,000	\$ (202,171)	237,894	11,028					5,249
Prepaid expenses and other current assets	230,179		191,057	18,350	13,200				7,572
Total current assets	4,208,286	(202,171)	994,239	1,291,035	1,975,983	90,863	13,375	28	44,934
Investments	33,630,698		31,064,444						2,566,254
Property, furniture and equipment, net	992,180		986,379	5,801					
Other assets	3,433,001		3,146,288	286,713					
Investment in affiliate, equity method	33,462		33,462						
Investment in subsidiaries	-	(3,176,483)	3,176,483						
Total assets	\$ 42,297,627	\$ (3,378,654)	\$ 39,401,295	\$ 1,583,549	\$ 1,975,983	\$ 90,863	\$ 13,375	\$ 28	\$ 2,611,188

See notes to consolidated financial statements.

**THE HOSPITAL AND HEALTHSYSTEM ASSOCIATION OF PENNSYLVANIA
AND CONTROLLED ENTITIES**

SCHEDULE OF CONSOLIDATING INFORMATION, BALANCE SHEET
DECEMBER 31, 2021
(See independent auditor's report)

	LIABILITIES, EQUITY AND NET ASSETS								
	Consolidated	Eliminations	HAP	HAPevolve	HMS	HAPAC	HAPAC- Federal	BHCPA	Education Services
Current liabilities:									
Current portion of capital lease obligations	\$ 6,457		\$ 6,457						
Accounts payable:									
Trade	414,981		399,542	\$ 13,989		\$ 1,250			\$ 200
Related party payable	-	\$ (202,171)	14,777	69,178	\$ 48,554				69,662
Unearned revenue	426,879		376,442	50,437					
Accrued:									
Vacation	364,152		340,910	23,242					
Expenses and other current liabilities	2,323,336		2,189,787	132,108	1,441				
Total current liabilities	3,535,805	(202,171)	3,327,915	288,954	49,995	1,250			69,862
Capital lease obligations, net of current portion	12,442		12,442						
Postretirement benefit obligation	30,717		30,717						
Deferred compensation payable	1,469,179		1,469,179						
Long-term incentive payable	44,100			44,100					
Total liabilities	5,092,243	(202,171)	4,840,253	333,054	49,995	1,250			69,862
Net assets without donor restrictions and equity:									
Operating	36,040,448		33,463,196			89,613	\$ 13,375	\$ 28	2,474,236
Board designated	1,164,936		1,097,846						67,090
Equity	-	(3,176,483)		1,250,495	1,925,988				
Total net assets without donor restrictions and equity	37,205,384	(3,176,483)	34,561,042	1,250,495	1,925,988	89,613	13,375	28	2,541,326
Total liabilities, equity net assets	\$ 42,297,627	\$ (3,378,654)	\$ 39,401,295	\$ 1,583,549	\$ 1,975,983	\$ 90,863	\$ 13,375	\$ 28	\$ 2,611,188

See notes to consolidated financial statements.

**THE HOSPITAL AND HEALTHSYSTEM ASSOCIATION OF PENNSYLVANIA
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SCHEDULE OF CONSOLIDATING INFORMATION, STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2021
(See independent auditor's report)

	Consolidated	Eliminations	HAP	HAPevolve	HMS	HAPAC	HAPAC- Federal	BHCPA	Education Services
Unrestricted revenues, gains and other support:									
Institutional dues	\$ 6,402,588		\$ 6,402,588						
Service and program fees	4,766,947	\$ (531,197)	605,947	\$ 2,767,997	\$ 1,785,664				\$ 138,536
Contract and grant revenue	3,702,557		3,702,557						
Investment income:									
Interest and dividend income, net	816,577		789,469						27,108
Net realized gains on the sale of investments	1,861,496		1,761,442						100,054
Net unrealized gains on investments	547,757		513,571						34,186
Other	1,021,884		820,822	124,897					76,165
Contribution income	277,670					\$ 161,612	\$ 115,553	\$ 505	
Interest income, other	3,603		3,567			14	16		6
Total unrestricted revenues, gains and other support	19,401,079	(531,197)	14,599,963	2,892,894	1,785,664	161,626	115,569	505	376,055
Expenses:									
Salaries, payroll taxes and employee benefits	9,917,802		8,591,024	1,087,767	91,877				147,134
Program services	3,199,840	(94,254)	3,222,113						71,981
Administrative and general	1,181,003	(391,583)	761,222	288,803	440,861	8,699	5,176	634	67,191
Office maintenance and operations	572,060		563,595	6,436					2,029
Professional fees	1,080,832	(45,360)	808,865	208,932	105,995				2,400
Depreciation and amortization	260,051		256,033	4,018					
Digital online community	454,000		454,000						
Independent expenditures	499,746		499,746						
Contingency costs	1,122				1,122				
Campaign contributions	315,515					213,115	102,400		
Printing and production	28,587		27,518	666	4				399
Total expenses	17,510,558	(531,197)	15,184,116	1,596,622	639,859	221,814	107,576	634	291,134

(continued)

**THE HOSPITAL AND HEALTHSYSTEM ASSOCIATION OF PENNSYLVANIA
AND CONTROLLED ENTITIES**

SCHEDULE OF CONSOLIDATING INFORMATION, STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (CONTINUED)
YEAR ENDED DECEMBER 31, 2021
(See independent auditor's report)

	Consolidated	Eliminations	HAP	HAPevolve	HMS	HAPAC	HAPAC- Federal	BHCPA	Education Services
Operating income (loss)	\$ 1,890,521	\$ -	\$ (584,153)	\$ 1,296,272	\$ 1,145,805	\$ (60,188)	\$ 7,993	\$ (129)	\$ 84,921
Income tax expense	(216,484)			(216,484)					
Revenues in excess of (less than) expenses	1,674,037	-	(584,153)	1,079,788	1,145,805	(60,188)	7,993	(129)	84,921
Transfers	-	499,746			(499,746)				
Postretirement benefit liability adjustments	(2,373)		(2,373)						
Equity in income of subsidiary	-	(2,225,593)	2,225,593						
Increase (decrease) in net assets without donor restrictions	1,671,664		1,639,067			(60,188)	7,993	(129)	84,921
Net income	-	(1,725,847)		1,079,788	646,059				
Capital contribution	-	(1,157,257)		1,157,257					
Net assets without donor restrictions and equity:									
Beginning of year	35,533,720	(293,379)	32,921,975	(986,550)	1,279,929	149,801	5,382	157	2,456,405
End of year	\$ 37,205,384	\$ (3,176,483)	\$ 34,561,042	\$ 1,250,495	\$ 1,925,988	\$ 89,613	\$ 13,375	\$ 28	\$ 2,541,326

See notes to consolidated financial statements.

**THE HOSPITAL AND HEALTHSYSTEM ASSOCIATION OF PENNSYLVANIA
AND CONTROLLED ENTITIES**

SCHEDULE OF CONSOLIDATING INFORMATION, BALANCE SHEET
DECEMBER 31, 2020
(See independent auditor's report)

	ASSETS								
	Consolidated	Eliminations	HAP	HAPevolve	HMS	HAPAC	HAPAC- Federal	BHCPA	Education Services
Current assets:									
Cash and cash equivalents	\$ 2,139,454		\$ 420,052	\$ 188,489	\$ 1,301,790	\$ 150,876	\$ 5,382	\$ 157	\$ 72,708
Short-term investments	75,313		73,683						1,630
Accounts receivable, net of allowance for doubtful accounts of approximately \$119,000	1,219,809		803,901	388,509	25,026				2,373
Related party receivable	-	\$ (1,907,466)	1,894,003	11,863					1,600
Prepaid expenses and other current assets	255,693		185,810	19,368	12,663				37,852
Total current assets	3,690,269	(1,907,466)	3,377,449	608,229	1,339,479	150,876	5,382	157	116,163
Investments	31,816,705		29,414,122						2,402,583
Property, furniture and equipment, net	934,729		924,910	9,819					
Other assets	3,440,777		3,049,393	391,384					
Investment in affiliate, equity method	35,058		35,058						
Investment in subsidiaries	-	(293,379)	293,379						
Total assets	\$ 39,917,538	\$ (2,200,845)	\$ 37,094,311	\$ 1,009,432	\$ 1,339,479	\$ 150,876	\$ 5,382	\$ 157	\$ 2,518,746

See notes to consolidated financial statements.

**THE HOSPITAL AND HEALTHSYSTEM ASSOCIATION OF PENNSYLVANIA
AND CONTROLLED ENTITIES**

SCHEDULE OF CONSOLIDATING INFORMATION, BALANCE SHEET
DECEMBER 31, 2020
(See independent auditor's report)

LIABILITIES, EQUITY AND NET ASSETS

	<u>Consolidated</u>	<u>Eliminations</u>	<u>HAP</u>	<u>HAPevolve</u>	<u>HMS</u>	<u>HAPAC</u>	<u>HAPAC- Federal</u>	<u>BHCPA</u>	<u>Education Services</u>
Current liabilities:									
Current portion of capital lease obligations	\$ 6,247		\$ 6,247						
Accounts payable:									
Trade	551,340		537,012	\$ 13,250	\$ 3	\$ 1,075			
Related party	-	\$ (1,907,466)	13,463	1,818,344	58,176				\$ 17,483
Unearned revenue	189,526		152,356	19,469					17,701
Accrued:									
Vacation	349,377		328,208	21,169					
Expenses and other current liabilities	1,725,650		1,724,166	113	1,371				
Total current liabilities	2,822,140	(1,907,466)	2,761,452	1,872,345	59,550	1,075			35,184
Capital lease obligations, net of current portion	18,899		18,899						
Postretirement benefit obligation	32,197		32,197						
Deferred compensation payable	1,359,788		1,359,788						
Paycheck Protection Program loans	150,794			123,637					27,157
Total liabilities	4,383,818	(1,907,466)	4,172,336	1,995,982	59,550	1,075			62,341
Net assets without donor restrictions and equity:									
Operating	34,417,722		31,873,067			149,801	\$ 5,382	\$ 157	2,389,315
Board designated	1,115,998		1,048,908						67,090
Equity	-	(293,379)		(986,550)	1,279,929				
Total net assets without donor restrictions and equity	35,533,720	(293,379)	32,921,975	(986,550)	1,279,929	149,801	5,382	157	2,456,405
Total liabilities, equity and net assets	\$ 39,917,538	\$ (2,200,845)	\$ 37,094,311	\$ 1,009,432	\$ 1,339,479	\$ 150,876	\$ 5,382	\$ 157	\$ 2,518,746

See notes to consolidated financial statements.

**THE HOSPITAL AND HEALTHSYSTEM ASSOCIATION OF PENNSYLVANIA
AND CONTROLLED ENTITIES**

SCHEDULE OF CONSOLIDATING INFORMATION, STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2020
(See independent auditor's report)

	Consolidated	Eliminations	HAP	HAPevolve	HMS	HAPAC	HAPAC- Federal	BHCPA	Education Services
Unrestricted revenues, gains and other support:									
Institutional dues	\$ 6,790,125		\$ 6,790,125						
Service and program fees	2,699,759	\$ (521,177)	622,000	\$ 1,186,988	\$ 1,370,519				\$ 41,429
Contract and grant revenue	6,999,320		6,999,320						
Investment income (loss):									
Interest and dividend income, net	531,927		500,285						31,642
Net realized gains on the sale of investments	809,388		694,178						115,210
Net unrealized gains on investments	1,995,604		1,797,002						198,602
Other	843,400		843,400						
Contribution income	204,204					\$ 147,843	\$ 55,647	\$ 714	
Interest income, other	15,334		15,280			14	18		22
Total unrestricted revenues, gains and other support	20,889,061	(521,177)	18,261,590	1,186,988	1,370,519	147,857	55,665	714	386,905
Expenses:									
Salaries, payroll taxes and employee benefits	10,242,688		8,994,141	1,065,630	36,934				145,983
Program services	4,390,624		4,380,541						10,083
Administrative and general	855,289	(517,817)	672,459	155,823	499,255	5,598	2,665	557	36,749
Office maintenance and operations	680,958	(3,360)	672,778	9,606					1,934
Professional fees	1,122,604		936,013	123,923	60,268				2,400
Depreciation and amortization	265,409		261,391	4,018					
Digital online community	402,605		402,605						
Independent expenditures	397,009		397,009						
COVID-19 media campaign	1,934,629		1,934,629						
Contingency costs	89,221				89,221				
Campaign contributions	223,185					164,685	58,500		
Printing and production	44,063		43,753	187	12				111
Total expenses	20,648,284	(521,177)	18,695,319	1,359,187	685,690	170,283	61,165	557	197,260

(continued)

**THE HOSPITAL AND HEALTHSYSTEM ASSOCIATION OF PENNSYLVANIA
AND CONTROLLED ENTITIES**

SCHEDULE OF CONSOLIDATING INFORMATION, STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (CONTINUED)
YEAR ENDED DECEMBER 31, 2020
(See independent auditor's report)

	Consolidated	Eliminations	HAP	HAPevolve	HMS	HAPAC	HAPAC- Federal	BHCPA	Education Services
Operating income (loss)	\$ 240,777	\$ -	\$ (433,729)	\$ (172,199)	\$ 684,829	\$ (22,426)	\$ (5,500)	\$ 157	\$ 189,645
Income tax benefit	52,583			52,583					
Revenues in excess of (less than) expenses	293,360	-	(433,729)	(119,616)	684,829	(22,426)	(5,500)	157	189,645
Transfers	-	2,434,457			(2,434,457)				
Postretirement benefit liability adjustments	(3,202)		(3,202)						
Equity in income of subsidiary	-	(565,213)	565,213						
Increase (decrease) in net assets without donor restrictions	290,158		128,282			(22,426)	(5,500)	157	189,645
Net loss	-	1,869,244		(119,616)	(1,749,628)				
Net assets without donor restrictions and equity:									
Beginning of year	35,243,562	(2,162,623)	32,793,693	(866,934)	3,029,557	172,227	10,882		2,266,760
End of year	\$ 35,533,720	\$ (293,379)	\$ 32,921,975	\$ (986,550)	\$ 1,279,929	\$ 149,801	\$ 5,382	\$ 157	\$ 2,456,405

See notes to consolidated financial statements.

**THE HOSPITAL AND HEALTHSYSTEM ASSOCIATION OF PENNSYLVANIA
AND CONTROLLED ENTITIES**

HAP STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2021
(See independent auditor's report)

	HAP		
	Operating	Board designated	Total
Unrestricted revenues, gains and other support:			
Institutional dues	\$ 6,402,588		\$ 6,402,588
Service and program fees	605,947		605,947
Contract and grant revenue	3,702,557		3,702,557
Investment income:			
Interest and dividend income	789,469		789,469
Net realized gains on the sale of investments	1,761,442		1,761,442
Net unrealized gains on investments	513,571		513,571
Other	820,822		820,822
Interest income, other	3,567		3,567
Transfer to board-designated funds	(48,938)	\$ 48,938	-
Total unrestricted revenues, gains and other support	14,551,025	48,938	14,599,963
Expenses:			
Salaries, payroll taxes and employee benefits	8,591,024		8,591,024
Program services	3,222,113		3,222,113
Administrative and general	761,222		761,222
Office maintenance and operations	563,595		563,595
Professional fees	808,865		808,865
Depreciation and amortization	256,033		256,033
Digital online community	454,000		454,000
Independent expenditures	499,746		499,746
Printing and production	27,518		27,518
Total expenses	15,184,116		15,184,116
Operating income (loss)	(633,091)	48,938	(584,153)
Postretirement benefit liability adjustments	(2,373)		(2,373)
Equity in income of subsidiary	2,225,593		2,225,593
Increase in net assets without donor restrictions	1,590,129	48,938	1,639,067
Net assets:			
Beginning of year	31,873,067	1,048,908	32,921,975
End of year	\$ 33,463,196	\$ 1,097,846	\$ 34,561,042

**THE HOSPITAL AND HEALTHSYSTEM ASSOCIATION OF PENNSYLVANIA
AND CONTROLLED ENTITIES**

EDUCATION SERVICES STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2021
(See independent auditor's report)

	Education Services		
	Operating	Board designated	Total
Unrestricted revenues, gains and other support:			
Service and program fees	\$ 138,536		\$ 138,536
Investment income:			
Interest and dividend income	27,108		27,108
Net realized gains on the sale of investments	100,054		100,054
Net unrealized gains on investments	34,186		34,186
Other	76,165		76,165
Interest income, other	6		6
Total unrestricted revenues, gains and other support	376,055		376,055
Expenses:			
Salaries, payroll taxes and employee benefits	147,134		147,134
Program services	71,981		71,981
Administrative and general	67,191		67,191
Building maintenance and operations	2,029		2,029
Professional fees	2,400		2,400
Printing and production	399		399
Total expenses	291,134		291,134
Increase in net assets without donor restrictions	84,921		84,921
Net assets:			
Beginning of year	2,389,315	\$ 67,090	2,456,405
End of year	\$ 2,474,236	\$ 67,090	\$ 2,541,326

**THE HOSPITAL AND HEALTHSYSTEM ASSOCIATION OF PENNSYLVANIA
AND CONTROLLED ENTITIES**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2021
(See independent auditor's report)

Grantor/program title	Federal AL number	Pass-through grant number	Grant period beginning/ ending date	Grant amount	Total received for the year	Accrued revenue January 1, 2021	Revenue recognized	Expenditures	Accrued (unearned) revenue December 31, 2021	Passed through to subrecipients
<u>U.S. Department of Health and Human Services</u>										
Passed through the Assistant Secretary for Preparedness & Response (ASPR):										
National Bioterrorism Hospital Preparedness Program (HPP):										
	93.889	U3REP0626CV	4/10/20 - 4/9/25	\$ 1,758,777		\$ (7,876)	\$ 7,876	\$ 7,876		
	93.889	U3REP0626C3	4/10/20 - 4/9/25	4,365,487	\$ 2,650,297		2,651,588	2,651,588	\$ 1,291	\$ 2,603,761
Passed through the Pennsylvania Department of Health:										
National Bioterrorism Hospital Preparedness Program (Regional Emergency Preparedness Grant):										
	93.889	SAP4100073376	7/1/20 - 6/30/21	104,225	102,042	74,140	27,902	27,902	-	
	93.889	SAP4100073376	7/1/20 - 6/30/21	25,000	25,000		25,000	25,000	-	
	93.889	SAP4100073376	7/1/19 - 6/30/20	95,775	3,652	3,652				
HPP Ebola Preparedness & Response Activities										
	93.817	SAP4100073376	7/1/20 - 5/17/21	49,193	49,193	1,330	47,863	47,863	-	
	93.817	SAP4100073376	7/1/19 - 5/17/20	527,812	35,771	35,771				
Passed through the Western State Medical Assistance Team:										
HPP Ebola Preparedness & Response Activities										
	93.889	SAP4100073377	7/1/20 - 6/30/21	175,013	174,971		174,971	174,971		
Passed through the Philadelphia Department of Health:										
Hospital Nutrition and Procurement Standards:										
	93.758	2120707-02	10/1/21 - 9/30/22	70,000			28,957	28,957	28,957	
	93.439	2120707-02	10/1/21 - 9/30/22	36,764					-	
	93.758	2120707	2/1/21 - 9/30/21	51,287	41,818		51,287	51,287	9,469	
	93.439	2120707	2/1/21 - 9/30/21	42,280			41,323	41,323	41,323	
Total U.S. Department of Health and Human Services					3,082,744	107,017	3,056,767	3,056,767	81,040	\$ 2,603,761
Total federal financial assistance					\$ 3,082,744	\$ 107,017	\$ 3,056,767	\$ 3,056,767	\$ 81,040	\$ 2,603,761

Basis of presentation and significant accounting policies:

The schedule of expenditures of federal awards includes the federal award activity of the Association and is presented on the accrual basis of accounting. The Association received the federal awards. Because the schedule presents only a selected portion of the operations of the Association, it is not intended to and does not present the financial position or changes in net assets of the Association. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The information in this schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). The Association has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

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 *Government Auditing Standards*

Board of Directors
The Hospital and Healthsystem
Association of Pennsylvania
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 consolidated financial statements of The Hospital and Healthsystem Association of Pennsylvania and controlled entities (collectively, the Association), which comprise the consolidated balance sheets as of December 31, 2021 and 2020 and the related consolidated statements of operations and changes in net assets, functional expenses and cash flows for the years then ended and the related notes to the consolidated financial statements, and have issued our report thereon dated May 9, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Association'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association'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 Association's consolidated 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 Association's consolidated 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 consolidated 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 Association'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 Association's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Brown Schultz Steidan & Fritz

Camp Hill, Pennsylvania
May 9, 2022



Independent Auditor's Report on Compliance for
the Major Federal Program and
on Internal Control Over Compliance
in Accordance with the Uniform Guidance

Board of Directors
The Hospital and Healthsystem
Association of Pennsylvania
Harrisburg, Pennsylvania

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited The Hospital and Healthsystem Association of Pennsylvania and controlled entities' (collectively, the Association) compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on the Association's major federal program for the year ended December 31, 2021. The Association's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Association complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2021.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Association and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for the major federal program. Our audit does not provide a legal determination of the Association's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Association's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Association's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Association's compliance with the requirements of the major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Association's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Association's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that

material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations during our audit, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Brown Schultz Steidman & Fritz

Camp Hill, Pennsylvania
May 9, 2022

THE HOSPITAL AND HEALTHSYSTEM ASSOCIATION OF PENNSYLVANIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2021

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
- Material weakness(es) identified?	_____ yes <u> X </u> no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____ yes <u> X </u> none reported
Noncompliance material to financial statements noted?	_____ yes <u> X </u> no

Federal awards

Internal control over the major program:	
- Material weakness(es) identified?	_____ yes <u> X </u> no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____ yes <u> X </u> none reported
Type of auditor's report issued on compliance for major program:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)?	_____ yes <u> X </u> no

Identification of major program:

<u>AL number</u>	<u>Name of federal program or cluster</u>
93.889	National Bioterrorism Hospital Preparedness Program

Dollar threshold used to distinguish between type A and type B programs:	<u>\$ 750,000</u>
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Auditee qualified as low-risk auditee?	<u> X </u> yes _____ no
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THE HOSPITAL AND HEALTHSYSTEM ASSOCIATION OF PENNSYLVANIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2021

SECTION II – FINANCIAL STATEMENT FINDINGS

None

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

THE HOSPITAL AND HEALTHSYSTEM ASSOCIATION OF PENNSYLVANIA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2021

There were no prior year audit findings.