



PRIMARY CARE DEVELOPMENT CORPORATION

**Consolidated Financial Statements
Schedule of Expenditures of Federal Awards
and Independent Auditor's Report**

Years Ended June 30, 2022 and 2021

Primary Care Development Corporation and Affiliate

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Independent Auditor's Report

To the Board of Directors of
Primary Care Development Corporation

Opinion

We have audited the accompanying consolidated financial statements of Primary Care Development Corporation and Affiliate (the "Organization") which comprise the consolidated statement of financial position as of June 30, 2022, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

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

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. The financial statements of PCDC PFS01, LLC included in the consolidated financial statements were not audited in accordance with *Government Auditing Standards*.

Other Matter

The consolidated financial statements of the Organization for the year ended June 30, 2021, were audited by another auditor, who expressed an unmodified opinion on those statements on October 28, 2021.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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 Organization's ability to continue as a going concern for one year after the date that 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 and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance") is 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 audit 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 Schedule of Expenditures of Federal Awards 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 October 27, 2022 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.



New York, New York
October 27, 2022, except for the schedule of expenditures
of federal awards, for which the date is March 21, 2023

Primary Care Development Corporation and Affiliate
Consolidated Statements of Financial Position
June 30, 2022 and 2021

| | 2022 | 2021 |
|---|-----------------------|-----------------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 10,108,890 | \$ 9,436,278 |
| Restricted cash | 11,136,590 | 9,536,016 |
| Investments | 45,729,944 | 38,673,689 |
| Accounts receivable, net | 967,623 | 718,165 |
| Grants and contributions receivable | 1,219,385 | 1,271,389 |
| Loans receivable, net | 5,401,150 | 8,217,590 |
| Restricted lease payments, net | 487,937 | 583,387 |
| Restricted investments | 566,017 | - |
| Prepaid expenses and other assets | 240,318 | 282,877 |
| | 75,857,854 | 68,719,391 |
| Non-Current Assets | | |
| Restricted cash | 4,054,980 | 9,784,927 |
| Restricted investments | 919,775 | 1,747,044 |
| Property and equipment, net | 185,806 | 256,846 |
| Loans receivable, net | 47,367,758 | 44,650,288 |
| Restricted reserves | 3,555,246 | 4,134,881 |
| Investments in LLCs, net | 26,844 | 24,260 |
| | 47,100,409 | 58,600,246 |
| Total Assets | \$ 131,968,263 | \$ 129,317,637 |
| Liabilities | | |
| Current Liabilities | | |
| Accounts payable and accrued expenses | \$ 1,669,572 | \$ 1,842,105 |
| Loans and other debt obligations | 1,350,000 | - |
| Due to New York City - bond program | 487,937 | 583,387 |
| Other | 440,419 | 59,754 |
| Deferred rent | 60,372 | 47,120 |
| | 4,008,300 | 2,532,366 |
| Non-Current Liabilities | | |
| Reserves and deposits payable | 3,555,246 | 4,134,880 |
| Loans and other debt obligations | 40,863,640 | 42,213,640 |
| Equity equivalent debt | 4,000,000 | 4,000,000 |
| Due to third party | 19,565,773 | 19,557,721 |
| Other | 1,156,522 | 1,595,587 |
| Deferred rent | 109,894 | 170,267 |
| | 69,256,075 | 71,672,095 |
| Total Liabilities | 73,259,375 | 74,204,461 |
| Commitments and Contingencies | | |
| Net Assets | | |
| Without donor restrictions | 35,089,185 | 28,372,673 |
| With donor restrictions | 23,619,703 | 26,740,503 |
| | 58,708,888 | 55,113,176 |
| Total Net Assets | 58,708,888 | 55,113,176 |
| Total Liabilities and Net Assets | \$ 131,968,263 | \$ 129,317,637 |

Primary Care Development Corporation and Affiliate
Consolidated Statements of Activities
For the Years Ended June 30, 2022 and 2021

| | For the Year Ended June 30, 2022 | | | For the Year Ended June 30, 2021 | | |
|--|----------------------------------|-------------------------|----------------------|----------------------------------|-------------------------|----------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| Operating Support and Revenue: | | | | | | |
| Public Support: | | | | | | |
| Grants and contributions | \$ 5,294,451 | \$ 1,032,000 | \$ 6,326,451 | \$ 4,601,629 | \$ 9,422,500 | \$ 14,024,129 |
| Special events | 160,946 | - | 160,946 | 162,468 | - | 162,468 |
| Contributed services | 25,582 | - | 25,582 | - | - | - |
| Total Public Support | 5,480,979 | 1,032,000 | 6,512,979 | 4,764,097 | 9,422,500 | 14,186,597 |
| Revenue: | | | | | | |
| Program fees | 7,050,548 | - | 7,050,548 | 4,475,667 | - | 4,475,667 |
| Interest on loans | 3,404,948 | - | 3,404,948 | 3,328,375 | - | 3,328,375 |
| Interest and dividends | 295,416 | - | 295,416 | 260,218 | - | 260,218 |
| Gain on disposal of property and equipment | - | - | - | 1,454 | - | 1,454 |
| Forgiveness of debt - PPP Loan | - | - | - | 1,075,319 | - | 1,075,319 |
| Other revenue | 565 | - | 565 | 450,017 | - | 450,017 |
| Total Revenue | 10,751,477 | - | 10,751,477 | 9,691,050 | - | 9,691,050 |
| Net Assets Released from Restrictions | 4,152,800 | (4,152,800) | - | 762,000 | (762,000) | - |
| Total Operating Support and Revenue | 20,385,256 | (3,120,800) | 17,264,456 | 15,117,147 | 8,660,500 | 23,777,647 |
| Operating Expenses: | | | | | | |
| Program services | 10,329,485 | - | 10,329,485 | 9,537,362 | - | 9,537,362 |
| Management and general | 2,408,060 | - | 2,408,060 | 2,059,994 | - | 2,059,994 |
| Development | 90,458 | - | 90,458 | 69,937 | - | 69,937 |
| Total Operating Expenses | 12,828,003 | - | 12,828,003 | 11,667,293 | - | 11,667,293 |
| Change in Net Assets from Operations | 7,557,253 | (3,120,800) | 4,436,453 | 3,449,854 | 8,660,500 | 12,110,354 |
| Non-Operating Gain: | | | | | | |
| Realized loss on investment and restricted reserves | (21,848) | - | (21,848) | (72,746) | - | (72,746) |
| Unrealized loss on investments and restricted reserves | (818,893) | - | (818,893) | (179,997) | - | (179,997) |
| Total Non-Operating Gain | (840,741) | - | (840,741) | (252,743) | - | (252,743) |
| Total Change in Net Assets | 6,716,512 | (3,120,800) | 3,595,712 | 3,197,111 | 8,660,500 | 11,857,611 |
| Net Assets - Beginning of Year | 28,372,673 | 26,740,503 | 55,113,176 | 25,175,562 | 18,080,003 | 43,255,565 |
| Net Assets - End of Year | \$ 35,089,185 | \$ 23,619,703 | \$ 58,708,888 | \$ 28,372,673 | \$ 26,740,503 | \$ 55,113,176 |

Primary Care Development Corporation and Affiliate
Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2022
(With Comparative Totals For the Year Ended June 30, 2021)

| | Program Services | | | | Supporting Services | | | |
|---|---------------------|---------------------------|---------------------------|------------------------|------------------------|------------------|---------------------------|----------------------|
| | Capital Investment | Clinical Quality Partners | Strategy & Public Affairs | Total Program Services | Management and General | Development | Total Supporting Services | Total 2021 |
| Salaries and wages | \$ 1,924,365 | \$ 2,361,482 | \$ 1,036,298 | \$ 5,322,145 | \$ 1,474,008 | \$ 19,049 | \$ 1,493,057 | \$ 6,815,202 |
| Payroll taxes and fringe benefits | 418,741 | 552,608 | 238,975 | 1,210,324 | 280,200 | 3,495 | 283,695 | 1,494,019 |
| Total Salaries and Related Costs | 2,343,106 | 2,914,090 | 1,275,273 | 6,532,469 | 1,754,208 | 22,544 | 1,776,752 | 8,309,221 |
| Interest | 1,259,771 | - | - | 1,259,771 | - | - | - | 1,259,771 |
| Legal and accounting fees | 797,812 | - | - | 797,812 | 97,779 | - | 97,779 | 895,591 |
| Professional fees | 134,393 | 457,817 | 167,295 | 759,505 | 93,206 | 9,166 | 102,372 | 861,877 |
| Occupancy costs | 125,772 | 198,745 | 96,710 | 421,227 | 125,832 | 1,588 | 127,420 | 548,647 |
| Equipment maintenance and rental | 52,461 | 70,176 | 68,756 | 191,393 | 75,613 | 5,376 | 80,989 | 272,382 |
| Travel | 37,921 | 80,688 | 6,199 | 124,808 | 10,004 | 466 | 10,470 | 135,278 |
| Other | 58,464 | 27,329 | 6,136 | 91,929 | 36,811 | - | 36,811 | 128,740 |
| Supplies and printing | 25,111 | 35,454 | 21,472 | 82,037 | 33,281 | 133 | 33,414 | 115,451 |
| Conferences, events and meetings | 16,204 | 10,188 | 2,910 | 29,302 | 21,313 | 49,100 | 70,413 | 99,715 |
| Insurance | 500 | - | - | 500 | 81,866 | - | 81,866 | 82,366 |
| Bank and miscellaneous fees | 16,542 | 37,978 | 750 | 55,270 | 19,765 | 1,718 | 21,483 | 76,753 |
| Depreciation and amortization | 17,875 | 26,678 | 13,156 | 57,709 | 16,491 | 226 | 16,717 | 74,426 |
| Telephone and Internet | 11,870 | 17,692 | 8,013 | 37,575 | 9,212 | 141 | 9,353 | 46,928 |
| Provision for doubtful accounts | 45,000 | - | - | 45,000 | - | - | - | 45,000 |
| Dues and subscriptions | 8,388 | 2,500 | 9,074 | 19,962 | 7,097 | - | 7,097 | 27,059 |
| Provision for loan losses | (176,784) | - | - | (176,784) | - | - | - | (176,784) |
| Contributed services | - | - | - | - | 25,582 | - | 25,582 | 25,582 |
| Total Other Than Personnel Service | 2,431,300 | 965,245 | 400,471 | 3,797,016 | 653,852 | 67,914 | 721,766 | 4,518,782 |
| Total Expenses | \$ 4,774,406 | \$ 3,879,335 | \$ 1,675,744 | \$ 10,329,485 | \$ 2,408,060 | \$ 90,458 | \$ 2,498,518 | \$ 12,828,003 |
| | | | | | | | | \$ 11,667,293 |

Primary Care Development Corporation and Affiliate
Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2021

| | Program Services | | | | | Supporting Services | | | Total |
|---|---------------------|---------------------------|---------------------------|------------------------|------------------------|---------------------|---------------------|----------------------|-------|
| | Capital Investment | Clinical Quality Partners | Strategy & Public Affairs | Total Program Services | Management and General | Development | Supporting Services | Total | |
| Salaries and wages | \$ 1,754,607 | \$ 2,291,553 | \$ 867,239 | \$ 4,913,399 | \$ 1,291,722 | \$ 31,487 | \$ 1,323,209 | \$ 6,236,608 | |
| Payroll taxes and fringe benefits | 373,177 | 551,311 | 175,248 | 1,099,736 | 247,828 | 5,909 | 253,737 | 1,353,473 | |
| Total Salaries and Related Costs | 2,127,784 | 2,842,864 | 1,042,487 | 6,013,135 | 1,539,550 | 37,396 | 1,576,946 | 7,590,081 | |
| Interest | 1,140,221 | - | - | 1,140,221 | 8,837 | - | 8,837 | 1,149,058 | |
| Legal and accounting fees | 565,879 | - | - | 565,879 | 77,029 | - | 77,029 | 642,908 | |
| Professional fees | 182,854 | 202,042 | 76,902 | 461,798 | 23,469 | 10,265 | 33,734 | 495,532 | |
| Occupancy costs | 137,131 | 223,152 | 91,940 | 452,223 | 115,288 | 3,755 | 119,043 | 571,266 | |
| Equipment maintenance and rental | 45,874 | 76,994 | 89,336 | 212,204 | 73,530 | 2,920 | 76,450 | 288,654 | |
| Travel | 12 | 101 | - | 113 | 454 | - | 454 | 567 | |
| Other | 173,046 | 41,097 | 26,666 | 240,809 | 76,209 | 4,560 | 80,769 | 321,578 | |
| Supplies and printing | 20,172 | 31,584 | 11,986 | 63,742 | 36,868 | 7,671 | 44,539 | 108,281 | |
| Conferences, events and meetings | 6,132 | 7,436 | 24,973 | 38,541 | 1,185 | - | 1,185 | 39,726 | |
| Insurance | 500 | - | - | 500 | 61,215 | - | 61,215 | 61,715 | |
| Bank and miscellaneous fees | 10,204 | 1,754 | 877 | 12,835 | 13,682 | 2,636 | 16,318 | 29,153 | |
| Depreciation and amortization | 16,186 | 25,053 | 10,751 | 51,990 | 13,519 | 417 | 13,936 | 65,926 | |
| Telephone and Internet | 13,473 | 22,500 | 8,651 | 44,624 | 9,695 | 317 | 10,012 | 54,636 | |
| Dues and subscriptions | 29,477 | 10,861 | 27,627 | 67,965 | 9,464 | - | 9,464 | 77,429 | |
| Provision for loan losses | 170,783 | - | - | 170,783 | - | - | - | 170,783 | |
| Total Other Than Personnel Service | 2,511,944 | 642,574 | 369,709 | 3,524,227 | 520,444 | 32,541 | 552,985 | 4,077,212 | |
| Total Expenses | \$ 4,639,728 | \$ 3,485,438 | \$ 1,412,196 | \$ 9,537,362 | \$ 2,059,994 | \$ 69,937 | \$ 2,129,931 | \$ 11,667,293 | |

Primary Care Development Corporation and Affiliate
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2022 and 2021

| | 2022 | 2021 |
|---|----------------------|----------------------|
| Cash Flows from Operating Activities | | |
| Change in net assets | \$ 3,595,712 | \$ 11,857,611 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Provisions for loan losses | (176,784) | (279,217) |
| Provisions for uncollectible receivables | 45,000 | - |
| Forgiveness of debt - PPP Loan | - | (1,075,319) |
| Disposal of property and equipment | - | (1,454) |
| Depreciation and amortization | 74,426 | 65,926 |
| Realized loss on investments and restricted reserves | 21,848 | 72,746 |
| Unrealized loss on investments and restricted reserves | 818,893 | 179,997 |
| | 4,379,095 | 10,820,290 |
| Subtotal | | |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in operating assets: | | |
| Accounts receivable | (294,458) | (418,298) |
| Grants and contributions receivable | 52,004 | 49,466 |
| Restricted reserves and lease payments | 675,085 | 47,650 |
| Prepaid expenses and other assets | 42,559 | 54,467 |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable and accrued expenses | (172,533) | 335,102 |
| Reserves and deposits payable | (579,634) | (46,975) |
| Deferred rent | (47,121) | (34,191) |
| | (47,121) | (34,191) |
| Net Cash Provided by Operating Activities | 4,054,997 | 10,807,511 |
| Cash Flows from Investing Activities | | |
| Disbursements under loan programs | (22,063,654) | (16,185,037) |
| Collections under loan programs | 22,339,408 | 12,808,846 |
| Purchases of investments and restricted reserves | (22,789,818) | (36,101,963) |
| Proceeds from the sale of investments and restricted reserves | 15,154,074 | 15,013,035 |
| Net investments in LLCs | (2,584) | (3,515) |
| Proceeds from the sale of property and equipment | - | 2,541 |
| Purchase of property and equipment | (3,386) | (22,050) |
| | (7,365,960) | (24,488,143) |
| Net Cash Used in Investing Activities | (7,365,960) | (24,488,143) |
| Cash Flows from Financing Activities | | |
| Due to third party | 8,052 | 17,778 |
| Proceeds from loan payable | - | 24,800,000 |
| Repayments of loans & other debt | - | (5,135,587) |
| Receipts to loan participants | (58,400) | (1,872,662) |
| Due to New York City - bond program | (95,450) | (5,748) |
| | (145,798) | 17,803,781 |
| Net Cash (Used in) Provided by Financing Activities | (145,798) | 17,803,781 |
| Net (Decrease) Increase in Cash, Cash Equivalents and Restricted Cash | (3,456,761) | 4,123,149 |
| Cash, cash equivalents and restricted cash - beginning of year | 28,757,221 | 24,634,072 |
| Cash, cash equivalents and restricted cash - end of year | \$ 25,300,460 | \$ 28,757,221 |
| Supplementary Disclosure of Cash Flow Information: | | |
| Cash paid during the year for interest | \$ 1,259,771 | \$ 1,149,058 |

Primary Care Development Corporation and Affiliate
Notes to Consolidated Financial Statements
June 30, 2022 and 2021

Note 1 – Organization and nature of activities

Primary Care Development Corporation (“PCDC”) knows quality primary care is transformational and a cornerstone of community health, strength, and vitality. Founded in 1993, PCDC builds, expands, and strengthens equitable access to quality primary care through capital investment, practice transformation, and policy and advocacy.

PCDC is certified as a Community Development Financial Institution (“CDFI”) by the United States Department of the Treasury and has received a four-star impact performance rating with Policy Plus and an AA+ financial strength rating from the CDFI rating agency Aeris. PCDC has been granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code (the “Code”) and has been determined by the Internal Revenue Service to be a “publicly supported” organization of the type described in Section 509(a)(1) of the Code.

Capital Investment: PCDC offers affordable and flexible financial products to support primary care practices’ capital projects and business expansion in underserved communities across the country. These include traditional financing, New Markets Tax Credits (“NMTC”) financing, a Community Health Care Revolving Capital Fund for New York State, and other targeted loan and financing options for primary care providers. Since its inception, PCDC has experienced no loan losses in its portfolio.

To date, PCDC has financed more than \$1.42 billion of primary care projects through direct investment and leverage, transforming more than 2.6 million square feet of space. This has created more than 6,700 construction jobs and created or preserved more than 12,500 permanent jobs in low-income communities. On an annual basis, this has resulted in creating capacity for more than 4.6 million estimated medical visits for over 1.3 million estimated patients across the U.S.

Clinical & Quality Partners: PCDC strengthens service delivery and facilitates practice transformation through technical assistance that meets the unique needs of each client. PCDC helps providers to understand their challenges; develop and implement strategies for change; define clear and measurable outcomes; and sustain long-term improvements. To date, PCDC has worked with more than 3,000 primary care organizations (including providing technical assistance to over 5,000 practices nationwide) and trained more than 17,000 providers and staff.

PCDC’s services include business and strategic planning, operational analysis, project management, practice coaching and facilitation, and staff training in the following areas (non-exhaustive):

- Practice Transformation and Medical Home Recognitions to implement and sustain Patient-Centered Medical Home Recognition and other transformation initiatives.
- Efficiency and Patient Access to expand access and maximize encounter volume through improved workflows, appointment availability, and other initiatives.
- Primary & Behavioral Health Care Integration to implement whole-person approaches to care and integrate behavioral health and primary care.
- HIV Prevention and Treatment to support health care organizations to integrate HIV prevention and treatment best practices into their clinical settings.
- Care Management and Coordination to build and deploy care teams for effective care management, population management, and referral tracking.
- Operations Improvement and Financial Sustainability to develop and execute effective business and staffing plans as well as enhance billing and coding practices.
- Telemedicine Training & Assistance to implement and improve virtual care during and beyond the COVID-19 pandemic.

Primary Care Development Corporation and Affiliate
Notes to Consolidated Financial Statements
June 30, 2022 and 2021

Strategy & Public Affairs: PCDC aims to develop, shape, and contribute to a narrative that educates and changes norms in support of high-quality primary care for all individuals and families. Working with policymakers, trade associations, health care organizations, media outlets, and industry leaders, PCDC advocates for policies that will improve outcomes and reduce costs and disparities through stronger and more equitable primary care. PCDC also regularly provides thought leadership and expertise through meetings with policymakers, public testimony, and commentary on key policy issues.

PCDC supports this work with rigorous research to build the evidence base on disparities in access to and availability of primary care, including regularly published reports which are frequently cited in leading local and national media.

The accompanying consolidated financial statements include the accounts of PCDC and PCDC PFS01, LLC (the "Organization"), created to serve as intermediary organization to facilitate the implementation of a Pay for Success initiative (see Note 15). PCDC PFS01 LLC whose sole member is PCDC, is considered a disregarded entity and is not subject to income taxes.

Note 2 – Summary of significant accounting policies

- A. ***Basis of Accounting and Use of Estimates*** – The Organization's consolidated financial statements have been prepared on the accrual basis of accounting. The Organization adheres to accounting principles generally accepted in the United States of America ("U.S. GAAP"). The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- B. ***Basis of Consolidation*** - The Organization consolidates limited liability companies ("LLCs") where PCDC is the sole or managing member and exerts control in accordance with not-for-profit consolidation principles under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-810-25, *Consolidation*. As such, asset, liability, equity, revenue and expense accounts of PCDC PFS01, LLC are included in the accompanying consolidated statements of financial position.

The accounts and activities of NMTC LLCs are not included in the consolidated financial statements as the operating agreements limit control to administrative functions that overcome the presumption of control of the managing member. All NMTC LLCs operate under an agreement with PCDC for administrative and operating services. In exchange, the Organization receives an administrative fee on LLCs assets under management (see Note 15).

HealthCo Participant, LLC ("HealthCo"), another related affiliate (see Note 15 & 17) does not meet the criteria requiring consolidation and is therefore not included in the consolidated financial statements.

- C. ***Basis of Presentation*** - The Organization maintains and reports its net assets and changes therein as follows:

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor- (or certain grantor-) imposed restrictions. Such resources are available for support of the Organization's operations over which the Board of Directors has discretionary control.

Net Assets With Donor Restrictions - Net assets include all assets received with donor designated restrictions whether they are perpetual in nature, or purpose or time restricted. Donor-imposed restrictions are released when stipulated time restriction ends or purpose restriction is accomplished, or both. The Organization reports donor restricted contributions as an increase in net assets without donor restrictions, provided the restrictions are met in the same year the contributions are recognized.

Primary Care Development Corporation and Affiliate
Notes to Consolidated Financial Statements
June 30, 2022 and 2021

- D. **Cash, Cash Equivalents and Restricted Cash** - Cash equivalents consist of all highly liquid instruments with maturities of 90 days or less, when acquired, except for certain cash, money market funds and short-term government securities held for long-term investment purposes, which are included in investments.

Restricted cash represents funds held by the Organization for specific grants, project purposes and funds held for a related affiliate under a fiscal intermediary agreement as part of the Organization's operations.

The following table provides a reconciliation of cash and restricted cash reported within the consolidated statements of financial position that total to the same amounts shown in the consolidated statements of cash flows:

| | 2022 | 2021 |
|-------------------------------|---------------|---------------|
| Cash and cash equivalents | \$ 10,108,890 | \$ 9,436,278 |
| Restricted cash - current | 11,136,590 | 9,536,016 |
| Restricted cash - non-current | 4,054,980 | 9,784,927 |
| Total | \$ 25,300,460 | \$ 28,757,221 |

- E. **Property and Equipment** - Property and equipment is stated at cost less accumulated depreciation. These amounts do not purport to represent replacement or realizable values. The Organization capitalizes all property and equipment having a useful life of greater than one year and a cost of \$5,000 or more. Expenses for maintenance and repairs are charged to operations as incurred. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, with any net gain or loss reflected in the consolidated statements of activities for the period. Leasehold improvements are amortized over the lesser of their useful lives or the term of the lease. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.
- F. **Loans** - A loan is considered past due when payment of scheduled principal or interest is not received within 30 days from the payment due date. The Organization's policy places a loan on non-accrual status when payments of principal or interest are 90 days past due or more unless the loan is in the process of collection and management reasonably expects full collection. Management may place a loan on non-accrual whether the loan is past due or not when it is evident that full payment of the loan is not expected. Interest previously accrued and not paid will be reversed and applied to principal when paid.

A non-accrual loan will be returned to accrual status when all past due payments are brought current and management believes repayment of contractual owed principal and interest is reasonably assured.

- G. **Allowance for Doubtful Accounts** - As determined by the Organization, an allowance for loan loss reserve ("ALLR") of \$3,430,632 and \$3,607,415 was provided for loans receivable as of June 30, 2022 and 2021, respectively. An allowance for doubtful accounts of \$45,000 was provided for accounts receivable as of June 30, 2022. No allowance was deemed necessary for accounts receivable as of June 30, 2021. At June 30, 2022 and 2021, no allowance was deemed necessary for grants and contributions receivable. The Organization's estimates are based on management's assessment of the aged basis of its funding sources, creditworthiness of its borrowers, donors and customers, current economic conditions, loan repayment status of the project, the adequacy of the collateral and historical information.
- H. **Grants and Contributions** - Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not included as support until the conditions on which they depend have been substantially met.

Under ASU 2018-08, grants and contributions awarded by government agencies and other donors are generally considered as conditional grants, non-exchange transactions restricted for specific purposes and are recognized as revenue when qualifying expenses are incurred. As of June 30, 2022 and 2021, approximately \$3,353,000 and \$12,498,000 of such grants are available for future revenue recognition provided that certain

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performance related conditions are met, respectively. The government agencies are not obligated to release funds allotted under the grant agreements if performance goals are not met and the Organization may be required to return any advance grant funds received.

- I. **Program fees** - The Organization earns program fees from consulting and financing services. Performance obligations and price is defined within the contracts and obligations are determined to have been met by the Organization upon completion of contracted deliverables or alternatively, according to a service schedule stipulated in the contract. Fees are earned over time as the Organization meets these performance obligations.

During fiscal year 2022, the Organization was contracted with the New York City Department of Health and Mental Hygiene (“NYC DOHMH”) through an emergency procurement action to oversee and administer a vaccine readiness campaign that provided support to participating Federally Qualified Health Centers (“FQHCs”) within NYC in their efforts to increase vaccine distribution, access and coverage. This included passing through \$6.6M in total to participating FQHCs selected by NYC DOHMH. These funds were passed through in two separate tranches of \$3.3M each during the year ended June 30, 2022. Under ASC 958-605, *Transfers of Assets to a Not-for-Profit Entity or Charitable Trust*, the receipts and disbursements of funding from NYC DOHMH other than fees to the Organization for performing contractual services, are treated as agency transactions and therefore not included as revenues or expenses on the consolidated statements of activities.

The following table includes program fees disaggregated by program:

| | 2022 | 2021 |
|------------|--------------|--------------|
| Financing | \$ 4,740,436 | \$ 3,356,289 |
| Consulting | 2,310,112 | 1,119,378 |
| Total | \$ 7,050,548 | \$ 4,475,667 |

- J. **Investments and Fair Value Measurements** - Investments are recorded at fair value. Fair value measurements are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three levels, as described in Note 4.
- K. **Deferred Rent** - The Organization leases real property under operating leases expiring at various dates in the future. For the years ended June 30, 2022 and 2021, the Organization recorded an adjustment to rent expense to reflect the difference between the rent paid and the average rent to be paid over the term of the lease, which amounted to \$47,121 and \$34,191, respectively, and recorded such amounts as a decrease in occupancy expense. Straight-lining of rent gives rise to a timing difference that is reflected as deferred rent in the accompanying consolidated statements of financial position.
- L. **Functional Allocation of Expenses** - The consolidated financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Allocable expenses include salaries, benefits, general office supplies, telephone, copying, equipment leasing and maintenance, depreciation and occupancy. These expenses are accounted in one cost center to be allocated to each project monthly based on staff pro rata actual hours charged to that project in any given month. Staff hours charged on each project are derived from staff timesheets as recorded in the Organization’s timekeeping system.
- M. **Operating and Non-Operating Activities** - The Organization includes in its definition of operations all revenues and expenses that are an integral part of its programs and supporting activities. Realized and unrealized gains and losses on investments are recognized as non-operating activities.
- N. **Recent Accounting Pronouncements Not Yet Adopted** - The Organization is currently evaluating the impacts that the following updated standards will have on its consolidated financial statements.

In February, 2016, the FASB issued an ASU 2016-02, *Leases* (Topic 842). This ASU requires organizations that lease assets, referred to as lessees to recognize on the consolidated statements of financial position, the

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present value of the assets and liabilities for the rights and obligations created by those leases. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Subsequent issuance of ASU 2020-05 deferred implementation date of the lease standards to fiscal years beginning after December 15, 2021 and to interim periods within fiscal years beginning after December 15, 2022.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses* (Topic 326): Measurement of Credit Losses on financial Instruments, which provides guidance to the accounting of credit losses on financial instruments and disclosures requirements. The ASC 326-20's current expected credit loss (CECL) impairment model requires an estimate of expected credit losses, measured over the contractual life of an instrument, that considers forecasts of future economic conditions in addition to information about past events and current conditions. This standard will apply to fiscal years beginning after December 15, 2022.

- O. **Reclassifications** - Certain reclassifications have been made in the prior year's amount to conform with current year statement presentation.

Note 3 – Liquidity and availability

The Organization's financial assets available to meet cash needs for general expenditures within one year of the consolidated statements of financial position date, are as follows:

| | 2022 | 2021 |
|--|---------------|---------------|
| Cash and cash equivalents | \$ 10,108,890 | \$ 9,436,278 |
| Investments | 45,729,944 | 38,673,689 |
| Accounts receivable | 967,623 | 718,165 |
| Grants and contributions receivable, net | 1,219,385 | 1,271,389 |
| | 58,025,842 | 50,099,521 |
| Less: Investments not available for general expenditures | (13,253,816) | (12,391,576) |
| Total | \$ 44,772,026 | \$ 37,707,945 |

The Organization's liquidity management ensures unencumbered liquidity including cash, cash equivalents and highly liquid investments equal to or greater than six months of operating expenses, which is consistent with covenant requirements that the Organization needs to maintain under various credit and grant agreements (see Note 10).

As of June 30, 2022 and 2021, the Organization maintains sufficient operating liquidity to cover approximately 33 months and 32 months of planned operating expenses (including interest expense), respectively.

As part of the Organization's liquidity management plan, the Organization has typically invested cash preserved to support financing activities to FQHCs and other primary care provider organizations in short-term investments, and money market funds. Assets available for investing were arrayed in a ten-year ladder according to the Organization's investment policy, taking steps to ensure that all investments in the ten-year ladder are easily sold if needed. During the year ended June 30, 2022, following recommendation by management, review by the Finance & Audit committee and approval by the Organization's Board of Directors, the Organization adopted a new investment policy, which will move towards a mixed fixed-income portfolio with maturities and durations aligned with anticipated Organization funding needs for financing to FQHCs and other primary care organizations. This new investment policy was subsequently implemented during the first quarter of the year ending June 30, 2023, with a phased approach for moving current cash, money market and corporate debt securities into the new investment structure.

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For purposes of analyzing resources available to meet general expenditures over a 12-month period, investments held for loan funds are not considered available for the general expenditures. Disbursed loan funds are reflected as loans receivable in the consolidated statements of financial position. Donor restricted grants for various programs are considered available for the general expenditures to conduct those programs. Expected cash flow from loans receivable will be used to fund new loans or related lending activities and therefore will not be considered financial assets available for general operating use.

Note 4 – Investments

Investments are subject to market volatility that could change their carrying value in the near term.

The fair value hierarchy defines three levels as follows:

Level 1: Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2: Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities.

Level 3: Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models or similar techniques, and not based on market exchange, dealer, or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

In determining fair value, the Organization utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible in its assessment of fair value. Investments in money market funds are valued using market prices in active markets (Level 1). Level 1 instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets. Corporate obligations and U.S. government securities are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates and market-rate assumptions, and are classified within Level 2.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the end of the reporting period. For the years ended June 30, 2022 and 2021, there were no transfers between fair value levels occurred.

Financial assets carried at fair value at June 30, 2022 are classified in the fair value hierarchy as follows:

| | Level 1 | Level 2 | Total |
|--|----------------------|---------------------|----------------------|
| Restricted and unrestricted investments: | | | |
| Money market funds | \$ 40,248,370 | \$ - | \$ 40,248,370 |
| Bonds: | | | |
| Corporate obligations | - | 6,682,946 | 6,682,946 |
| U.S. government securities | - | 284,420 | 284,420 |
| | <u>\$ 40,248,370</u> | <u>\$ 6,967,366</u> | <u>\$ 47,215,736</u> |
| Total | <u>\$ 40,248,370</u> | <u>\$ 6,967,366</u> | <u>\$ 47,215,736</u> |

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Financial assets carried at fair value at June 30, 2021 are classified in the fair value hierarchy as follows:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Total</u> |
|--|-----------------------------|----------------------------|-----------------------------|
| Restricted and unrestricted investments: | | | |
| Money market funds | \$ 31,793,031 | \$ - | \$ 31,793,031 |
| Bonds: | | | |
| Corporate obligations | - | 8,271,082 | 8,271,082 |
| U.S. government securities | - | 356,620 | 356,620 |
| Total | <u>\$ 31,793,031</u> | <u>\$ 8,627,702</u> | <u>\$ 40,420,733</u> |

At June 30, 2022 and 2021, the Organization had restricted investments of \$1,485,792 and \$1,747,044, respectively, which are included in the table above. Restricted investments have been pledged as collateral in connection with the Organization's participation in its bond financing program (see Note 13A).

Note 5 – Reserves and deposits payable

The restricted reserves primarily represent borrowers' reserve deposits held by the Organization, pursuant to loan agreements or subleases (Bond Program). As of June 30, 2022 and 2021, restricted reserves consist primarily of cash or money market accounts.

As of June 30, 2022 and 2021, reserves and deposits payable consist of the following:

| | <u>2022</u> | <u>2021</u> |
|--|----------------------------|----------------------------|
| Bond program sponsors' reserve deposits (see note 14A) | \$ 1,763,597 | \$ 2,024,848 |
| PCDC borrower's reserve deposits | 1,774,264 | 2,088,811 |
| Interest payable to project sponsors and borrowers | 17,385 | 21,221 |
| Total | <u>\$ 3,555,246</u> | <u>\$ 4,134,880</u> |

Note 6 – Loans receivable, net

The Organization makes affordable loans to support the capital needs of community-based health providers across the country. Most loans in the portfolio are secured by the assets being financed or other business assets such as grants receivable, assignment of interest in leverage loans, cash reserves and guarantees. Occasionally, the Organization may make relatively small, unsecured loans for high-quality borrowers where the source of repayment is anticipated cash flow.

As of June 30, 2022 and 2021, approximately 63% of loans receivable outstanding are fixed rate loans (rates varying from 3% to 6% at June 30, 2022 and 4% to 6.375% at June 30, 2021). The remaining 37% are variable rate loans with interest resets at periodic intervals (rates varying from 2% to 7.25% at June 30, 2022 and 2021).

Loans receivable consist of the following loan products:

A. **Pre-development and Acquisition Loans**

Pre-development and acquisition loans are provided for the payment of certain facility related project costs to support site acquisition, project planning, and due diligence. The loans are typically repaid from the proceeds of financing provided through the Organization's construction and permanent financing programs or from other sources.

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B. Bridge and Other Loans

Bridge financing is provided in advance of the receipt of proceeds from grants or other committed payments. The Organization also provides loans to assist borrowers with other needs, such as COVID-19 pandemic recovery, equipment purchases, organizational investments, and practice acquisitions.

C. Permanent and Construction Loans

Permanent loans consist of medium-term loans that typically finance facility projects, and may include refinancing of debt, such as short-term construction loans and debt paired with other financing such as NMTC. The Organization also provides construction loans which consist of short-term loans to finance the construction or renovation of a facility.

Loans receivable consist of the following as of June 30:

| | 2022 | | | | |
|---------------------------------|---|---------------------------|--|---------------------|----------------------|
| | Acquisition/ predevelopment loans | Bridge and other loans | Permanent and construction loans | General | Total |
| Loans receivable | \$ 9,023,886 | \$ 7,230,988 | \$ 39,944,666 | \$ - | \$ 56,199,540 |
| Less: allowance for loan losses | (451,195) | (319,513) | (1,792,430) | (867,494) | (3,430,632) |
| Loans receivable, net | <u>\$ 8,572,691</u> | <u>\$ 6,911,475</u> | <u>\$ 38,152,236</u> | <u>\$ (867,494)</u> | <u>\$ 52,768,908</u> |
| | 2021 | | | | |
| | Acquisition/ predevelopment loans | Bridge and other loans | Permanent and construction loans | General | Total |
| Loans receivable | \$ 6,142,777 | \$ 4,131,370 | \$ 46,201,146 | \$ - | \$ 56,475,293 |
| Less: allowance for loan losses | (307,139) | (153,117) | (2,279,665) | (867,494) | (3,607,415) |
| Loans receivable, net | <u>\$ 5,835,638</u> | <u>\$ 3,978,253</u> | <u>\$ 43,921,481</u> | <u>\$ (867,494)</u> | <u>\$ 52,867,878</u> |

The following is a summary of the scheduled principal repayments to be received on all of the Organization's loans (after the allowance for loan loss reserves) for the five years subsequent to June 30, 2022 and thereafter:

| | |
|------------|----------------------|
| 2023 | \$ 5,401,150 |
| 2024 | 16,530,806 |
| 2025 | 5,183,187 |
| 2026 | 5,117,375 |
| 2027 | 6,618,867 |
| Thereafter | <u>13,917,523</u> |
| Total | <u>\$ 52,768,908</u> |

As of June 30, 2022, loans approved and committed for future funding totaled approximately \$3,722,000.

The Organization was the lead lender in certain loan participation agreements with other third-party organizations. If certain conditions for true sale of participating interest under the FASB ASC 860 were met, these loan participations were accounted for as a sale and the participation interest (loans receivable) was removed from the Organization's consolidated statements of financial position. If the conditions were not met, the full loan receivable was recorded, and the participation interest was recorded as other liabilities. As of June 30, 2022 and 2021, loan participations of \$1,595,542 and \$1,655,341, respectively, are included in loans receivable and offset by \$1,595,542 and \$1,655,341 of other liabilities, respectively.

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D. Loan Origination/Risk Management

The Organization has lending policies and procedures to safeguard capital investment and manage credit risk. Management reviews and updates these policies and procedures on a regular basis. Risk mitigation strategies include:

1. A thorough, disciplined underwriting process;
2. Loan structures which incorporate terms typical for commercial transactions and the industry to protect the investment;
3. Decision authority which is designated by the Organization's Board of Directors and delimited by borrower risk rating, exposure, and security;
4. Oversight by the Organization's management, Loan Committee and Board of Directors; and
5. Prudent asset management standards and practices.

Loan and portfolio reports supplement the loan review process by providing management with documentation of internal borrower ratings, overall quality of the portfolio, loan delinquencies, non-performing and potential problem loans, and relevant analysis.

An aged analysis of loans segregated by loan program (before any allowance) as of June 30 is as follows:

| | 2022 | | | Total |
|----------------------------------|----------------------|--------------------------------------|----------------------|----------------------|
| | Accruing, current | Accruing 30 days plus past due | Non-accrual Loans | |
| Acquisition/predevelopment loans | \$ 9,023,886 | \$ - | \$ - | \$ 9,023,886 |
| Bridge and other loans | 7,230,988 | - | - | 7,230,988 |
| Permanent and construction loans | 39,944,666 | - | - | 39,944,666 |
| Loans receivable | <u>\$ 56,199,540</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 56,199,540</u> |
| | 2021 | | | |
| | Accruing, current | Accruing 30 days plus past due | Non-accrual Loans | Total |
| Acquisition/predevelopment loans | \$ 4,185,900 | \$ 1,956,877 | \$ - | \$ 6,142,777 |
| Bridge and other loans | 4,131,370 | - | - | 4,131,370 |
| Permanent and construction loans | 46,201,146 | - | - | 46,201,146 |
| Loans receivable | <u>\$ 54,518,416</u> | <u>\$ 1,956,877</u> | <u>\$ -</u> | <u>\$ 56,475,293</u> |

E. Credit Quality Indicators

The Organization uses an internal rating system to determine borrower credit risk which includes an evaluation of such factors as financial strength and performance of the borrower, credit quality indicators, loan repayment and status of the project. Each borrower is scored against six key areas: Management, Financial Profile, Liquidity, Visit Volumes, Reserves and Compliance (including timeliness of payments and reporting). These scores are weighted and summarized into a final score which is used to determine the borrower's risk rating. The risk rating level assigned at loan closing determines frequency of subsequent asset reviews and informs the Organization's evaluation of the adequacy of the allowance for loan losses. Upon subsequent credit events (i.e., new loan requests or amendments), the borrower's risk rating will be reviewed. The initial loan loss reserve allocated to an individual loan is based on the standard percentages defined for each risk rating and adjusted as facts regarding potential risks to repayment are disclosed or uncovered by the lender through ongoing portfolio management, including covenant compliance monitoring, risk rating reviews and regular contact with the borrower. The initial ratings and any subsequent changes are recommended by the loan officers or portfolio managers and approved by the Chief Credit Officer.

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The definitions of the risk rating levels are summarized below:

Risk Ratings of “Strong” (1) and “Acceptable” (2) are used for borrowers that have the best credit metrics, including deep experience, strong management and board of directors; dependable profitability, liquidity and debt service coverage, cash flow, fully funded reserves if applicable, consistent payment and reporting history. They are performing and meet all covenants per the loan documents.

A risk rating of “Special Mention” (3) is assigned to borrowers who start to exhibit financial, operational, management or other challenges and potential weaknesses that require management’s attention (e.g., persistent late payments, significant changes in management, declining trends in operational or financial metrics). If left uncorrected, the potential weaknesses may result in deterioration of the credit and impair repayment of the loan.

A risk rating of “Substandard” (4) is for borrowers who have a well-defined weakness (e.g. financial deterioration, cash flow is unreliable or insufficient to repay the loan) that could jeopardize the repayment of the debt and have the potential for loss if the deficiencies are not corrected.

A risk rating of “Doubtful” (5) is assigned to borrowers having identifiable weaknesses which may include deteriorated financial and cash flow metrics, and based on current facts full repayment is deemed questionable or improbable.

Loans rated 4 or 5 require additional oversight with regular reporting to management and the Loan Committee including borrower’s operational and financial weaknesses, borrower’s plans for addressing deficiencies, the Organization staff’s strategy for risk mitigation and collection.

Most loans are secured by the assets being financed or other business assets such as contract receivables and guarantees. However, some short-term loans may be made on an unsecured basis.

The Organization’s loan portfolio is summarized below by loan program and internally assigned credit quality ratings as of June 30:

| | 2022 | | | |
|------------------|---|---------------------------|--|----------------------|
| | Acquisition/ predevelopment loans | Bridge and other loans | Permanent and construction loans | Total |
| Strong | \$ 1,111,066 | \$ 2,043,526 | \$ 10,760,783 | \$ 13,915,375 |
| Acceptable | 6,000,000 | 2,900,000 | 19,230,672 | 28,130,672 |
| Special mention | 1,912,820 | 1,787,462 | 8,262,885 | 11,963,167 |
| Substandard | - | 500,000 | 1,690,326 | 2,190,326 |
| Loans receivable | <u>\$ 9,023,886</u> | <u>\$ 7,230,988</u> | <u>\$ 39,944,666</u> | <u>\$ 56,199,540</u> |
| | 2021 | | | |
| | Acquisition/ predevelopment loans | Bridge and other loans | Permanent and construction loans | Total |
| Strong | \$ 1,500,000 | \$ - | \$ 6,000,000 | \$ 7,500,000 |
| Acceptable | 2,685,900 | 1,957,888 | 27,149,810 | 31,793,598 |
| Special mention | 1,956,877 | 2,173,482 | 11,244,870 | 15,375,229 |
| Substandard | - | - | 1,806,466 | 1,806,466 |
| Loans receivable | <u>\$ 6,142,777</u> | <u>\$ 4,131,370</u> | <u>\$ 46,201,146</u> | <u>\$ 56,475,293</u> |

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F. Allowance for Loan Loss Reserve ('ALLR')

The ALLR is established based on characteristics of each loan program and the nature of the loans and underlying projects in each program, including the risk ratings assigned to individual loans and management's evaluation of the overall adequacy of the allowance for loan losses for the portfolio. The allowance is adjusted at the end of each reporting period based on recommendations from the Chief Credit Officer and management's best estimate. This includes an assessment of such factors as projected growth and changes in the portfolio, industry and market trends, economic forecasts and environmental factors. The allowance is increased by a non-cash provision for loan losses. Because of uncertainties inherent in the estimation process, management's estimate of future losses in the loan portfolio and the related allowance may change in the near term. A general loan loss reserve was provided since fiscal year 2020 due to market uncertainty and risk associated with COVID-19 pandemic, subsequent extraordinary governmental support and associated evolution of sector liquidity.

An analysis of the allowance for loan losses by loan program as June 30 is summarized as follows:

| | 2022 | | | | |
|-------------------------------------|---|---------------------------|--|-------------------|---------------------|
| | Acquisition/ predevelopment loans | Bridge and other loans | Permanent and construction loans | General | Total |
| Beginning balance | \$ 307,139 | \$ 153,117 | \$ 2,279,665 | \$ 867,494 | \$ 3,607,415 |
| Charge-offs | - | - | - | - | - |
| Recoveries | - | - | - | - | - |
| Change in provision for loan losses | 144,056 | 166,396 | (487,235) | - | (176,783) |
| Ending balance | <u>\$ 451,195</u> | <u>\$ 319,513</u> | <u>\$ 1,792,430</u> | <u>\$ 867,494</u> | <u>\$ 3,430,632</u> |
| | 2021 | | | | |
| | Acquisition/ predevelopment loans | Bridge and other loans | Permanent and construction loans | General | Total |
| Beginning balance | \$ 178,201 | \$ 145,534 | \$ 2,245,404 | \$ 867,494 | \$ 3,436,633 |
| Charge-offs | - | - | - | - | - |
| Recoveries | - | - | - | - | - |
| Change in provision for loan losses | 128,938 | 7,583 | 34,261 | - | 170,782 |
| Ending balance | <u>\$ 307,139</u> | <u>\$ 153,117</u> | <u>\$ 2,279,665</u> | <u>\$ 867,494</u> | <u>\$ 3,607,415</u> |

At June 30, 2022 and 2021, all loans are individually evaluated for impairment.

Note 7 – Grants and contributions receivable

Grants and contributions receivable are due in less than one year and consist of the following as of June 30:

| | 2022 | 2021 |
|-------------------------|---------------------|---------------------|
| Government | \$ 919,385 | \$ 841,389 |
| Corporations and others | 300,000 | 430,000 |
| Total | <u>\$ 1,219,385</u> | <u>\$ 1,271,389</u> |

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Note 8 – Property and equipment, net

Property and equipment consist of the following as of June 30:

| | 2022 | 2021 | Estimated Useful Lives |
|---|-------------------|-------------------|---------------------------|
| Leasehold improvements | \$ 375,168 | \$ 375,168 | See Note 2E |
| Computer equipment and software | 183,338 | 183,338 | 3-5 years |
| Furniture and fixtures | 120,737 | 117,352 | 5-10 years |
| | | | |
| Total cost | 679,243 | 675,858 | |
| | | | |
| Less: accumulated depreciation and amortization | (493,437) | (419,012) | |
| | | | |
| Total | <u>\$ 185,806</u> | <u>\$ 256,846</u> | |

Depreciation and amortization amounted to \$74,425 and \$65,926 for the years ended June 30, 2022 and 2021, respectively.

Note 9 – Retirement plan

The Organization sponsors a defined contribution retirement plan covering all eligible employees. The Organization contributes an amount equal to 5% of all eligible employees' salaries. Retirement plan expenses for the years ended June 30, 2022 and 2021 amounted to \$282,815 and \$232,757, respectively.

Note 10 – Loans and other debt obligations

The Organization is a party to unsecured credit agreements (the "Agreements") with commercial lenders and loan funds. The loans are to be used to provide financing to primary health care providers. The interest rate varies by agreement. At June 30, 2022 and 2021, the Organization has outstanding loans and other debt obligations totaling \$1,350,000 with variable interest rate at 250 basis points plus a selected index (4.171% at June 30, 2022). At June 30, 2022 and 2021, the Organization has outstanding loans and other debt obligations totaling \$39,000,000 and \$37,000,000 respectively, with fixed interest rates ranging from 0% to 3%. The Organization is fully liable for all funds drawn and outstanding under the credit agreements.

At June 30, 2022 and 2021, the Organization also has an unsecured loan of \$1,863,640 and \$3,863,640, respectively, with an institution. The note bears an interest rate of 3% with a maturity date of December 31, 2026. The Organization is fully liable for all funds drawn and outstanding under the credit agreement.

In the year ended June 30, 2020, the Organization was granted a loan from an authorized SBA lender in the amount of \$1,064,412 pursuant to the Paycheck Protection Program (the "PPP") under the Coronavirus Aid, Relief, and Economic Stability Act ("CARES Act"). The Organization applied for and had been notified that the entire PPP loan including accrued interest of \$1,075,318 was forgiven during the year ended June 30, 2021. Loan forgiveness was included in other revenue in the accompanying consolidated statements of activities.

The interest expense related to financing excluding loan participations for the years ended June 30, 2022 and 2021, amounted to \$1,186,602 and \$1,015,320, respectively.

There are certain financial covenants and reporting requirements under each credit or loan agreement. As of June 30, 2022 and 2021, the Organization was in compliance with all financial and reporting covenants.

Primary Care Development Corporation and Affiliate
Notes to Consolidated Financial Statements
June 30, 2022 and 2021

Aggregate principal payments to be paid are as follows for the five years after June 30, 2022 and thereafter:

| | | |
|------------|----|------------|
| 2023 | \$ | 1,350,000 |
| 2024 | | 952,381 |
| 2025 | | 8,428,571 |
| 2026 | | 14,619,048 |
| 2027 | | 12,863,640 |
| Thereafter | | 4,000,000 |
| Total | \$ | 42,213,640 |

Undrawn lines of credit at June 30, 2022 and 2021, were \$17 million.

Note 11 – Equity equivalent debt (EQ2)

The Organization entered into separate EQ2 agreements with two financial institutions totaling \$4 million at June 30, 2022 and 2021 maturing starting in 2029. The notes bear interest at fixed rates of 2.75% to 3% per annum, which is payable semi-annually. EQ2 investments are fully subordinated and unsecured obligations. Proceeds of the EQ2 are used to support and expand financing and lending activities in the Organization’s target markets.

Note 12 – Due to third party

In January 2017, the Organization entered into an agreement with the Dormitory Authority of the State of New York (“DASNY”) to serve as the administrator of the community health care revolving loan fund (the “Fund”), which is intended to facilitate investment to expand and improve primary care capacity in New York State by providing affordable loan capital for eligible health care providers to support quality primary care expansion and integration of services within the State. The Fund’s proceeds shall be held in trust by the Organization and used in accordance with the terms of the agreement. The initial term of the agreement is ten years, subject to renewal. Upon termination, the Organization shall return proceeds remaining in the Fund to DASNY. The proceeds held by the Organization amounted to \$14,367,646 and \$18,384,924 as of June 30, 2022 and 2021, respectively, and are included in restricted cash in the accompanying consolidated statements of financial position. As of June 30, 2022 and 2021, approximately \$19.6 million in each year, due to third party included in the accompanying consolidated statements of financial position represents the initial loan capital and accrued interest available for use.

Note 13 – Commitments and contingencies

A. The Organization arranges financing for certain primary health care facilities through lease revenue bonds issued by DASNY. As of June 30, 2022 and 2021, DASNY has \$9.6 million and \$12.9 million, respectively, of such bonds outstanding. The DASNY bonds at the start of fiscal year 2022, consist of six bond-financed projects, two of which are to the same borrower. During the year ended June 30, 2022, one health care center prepaid its remaining rental payments of the operating lease. In addition, two bonds will mature during the year ending June 30, 2023. The Organization is contingently liable for lease payments due pursuant to these bond issues.

These bonds are structured so that the debt is repaid through a chain of leases. DASNY leased the facilities to the City of New York, which is fully responsible for repayment of the bonds through lease payments. The City, in turn, entered into sublease agreements with the Organization, which is obligated to make lease payments to the City. Finally, the Organization entered into operating lease agreements with the project sponsors, who must operate the facilities and make lease payments to the Organization.

The asset (restricted lease payments received) represents lease payments made by sponsors to the Organization and not yet remitted to the City. “Due to New York City – Bond Program” is the liability that offsets this asset and reflects lease payments due to New York City.

Primary Care Development Corporation and Affiliate
Notes to Consolidated Financial Statements
June 30, 2022 and 2021

In addition, the Organization is required to establish a reserve fund equal to six months' lease payments for each bond-financed project. As of June 30, 2022 and 2021, the Organization is in compliance with this requirement and has deposited \$1,485,792 and \$1,747,044, respectively, in the Organization bond reserve account (see Note 4), and has received reserves of \$1,763,597 and \$2,024,848, respectively, from sponsors as of June 30, 2022 and 2021 (as further discussed in Note 5).

In the event of a failure by a project sponsor to make lease payments to the Organization, the Organization has the following protections:

- The Organization would have the right to evict the sponsor from the facility and replace the sponsor with another operator/lessee.
- The Organization typically holds a first lien on the real estate and equipment of each project and would have the right to foreclose on this collateral.
- During any nonpayment/eviction period, the Organization would first use reserves posted by the project sponsor that failed to make a lease payment. As of June 30, 2022 and 2021, the Organization holds \$1,763,597 and \$2,024,848, in such reserves (see Note 5).

In the event of bankruptcy by a project sponsor, the Organization's liability to make lease payments to New York City is typically limited to reserves posted by the project sponsor and the Organization. Under other circumstances, should the Organization fail to make the required lease payments, New York City would have recourse against the remaining assets of the Organization, excluding restricted contributions and grants.

In the event of default under all of the lease agreements, the Organization is liable to the City of New York for the total amount of future lease payments including principal, interest and fees, as follows:

| | | | |
|--|--------------|-----------|-------------------|
| | 2023 | \$ | 2,767,107 |
| | 2024 | | 1,674,732 |
| | 2025 | | 762,699 |
| | 2026 | | 763,432 |
| | 2027 | | 763,111 |
| | Thereafter | | 5,965,524 |
| | Total | \$ | 12,696,605 |

- B. The Organization is obligated, pursuant to various lease agreements, to approximate future minimum annual rentals for each of the years subsequent to June 30, 2022 as follows:

| | Total | Real Property | Personal Property |
|--------------|---------------------|---------------------|----------------------|
| 2023 | \$ 670,812 | \$ 546,836 | \$ 123,976 |
| 2024 | 661,610 | 556,920 | 104,690 |
| 2025 | 333,173 | 237,173 | 96,000 |
| 2026 | 24,000 | - | 24,000 |
| Total | \$ 1,689,595 | \$ 1,340,929 | \$ 348,666 |

As of both June 30, 2022 and 2021, rent expense based on a straight-line basis amounted to approximately \$483,000 for real property. During the years ended June 30, 2022 and 2021, personal property expense amounted to approximately \$151,000 and \$145,000, respectively.

Primary Care Development Corporation and Affiliate
Notes to Consolidated Financial Statements
June 30, 2022 and 2021

- C. Pursuant to the Organization's contractual relationships with certain governmental funding sources, governmental agencies have the right to examine the books and records of the Organization that involve transactions relating to these contracts. The accompanying consolidated financial statements make no provision for possible disallowances.
- D. The Organization believes it has no uncertain tax positions as of June 30, 2022 and 2021 in accordance with FASB ASC Topic 740, which provides standards for establishing and classifying any tax provisions for uncertain tax positions.
- E. The extent and severity of the impact of the COVID-19 pandemic on the Organization and its clients cannot be predicted, though it is noteworthy, given the disruption to business, that after more 2 years of the pandemic, the clients and the Organization continue to operate within the required covenants. Management is actively monitoring the situation to assess implications to its and the clients' operations to mitigate any adverse consequence.

In addition, recent increased inflation, continued supply chain disruptions, higher interest rates and the continued war in Ukraine have not yet shown to have significant impact on the Organization's borrowers, outside of continued challenges with respect to workforce development and retention. Management is actively monitoring all of these factors to assess implications to its and the clients' operations to mitigate any adverse consequences.

Note 14 – Concentrations

- A. The Organization makes loans to not-for-profit operators of primary health care facilities. The Organization minimizes its credit risk as sponsors under its bond program and borrowers under its Primary Care Capital Fund are required to post with the Organization cash reserves equal to debt service payments of six months to a year. In addition, the Organization secures its position through, as appropriate, a mortgage, and/or collateral assignments of leases of the facilities. As of June 30, 2022, the largest concentrations of loans receivable are with three borrowers and amount to approximately \$6.0 million, \$6.0 million and \$3.8 million, representing approximately 11%, 11% and 7% of the Organization's total loan portfolio, respectively. Taking into consideration the Organization's contingent liabilities from bond issues as well as the assets associated with the bond issues, the concentration of risk for the top three relationships is approximately \$7.0 million, \$6.0 million and \$6.0 million, representing approximately 11%, 9%, and 9%, respectively, of the Organization's total loan portfolio. As of June 30, 2021, the largest concentrations of loans receivable are with three borrowers and amount to approximately \$6.0 million, \$5.6 million and \$4.4 million, representing approximately 11%, 10% and 8% of the Organization's total loan portfolio, respectively. Taking into consideration the Organization's contingent liabilities from bond issues as well as the assets associated with the bond issues, the concentration of risk for the top three relationships is approximately \$7.4 million, \$6.0 million and \$5.6 million, representing approximately 12%, 9% and 8%, respectively, of the Organization's total loan portfolio. (see Note 13A).
- B. The Organization maintains cash and cash equivalents in several major financial institutions. Financial instruments that potentially subject the Organization to a concentration risk include cash held in excess of Federal Deposit Insurance Corporation ("FDIC") insurance limits by approximately \$69,096,000 and \$64,771,000 as of June 30, 2022 and 2021, respectively. Such funds include cash and money market funds held as part of the investment portfolio, restricted cash and restricted reserves.

Note 15 – Related parties

Between fiscal years 2007 and 2022, the Organization was awarded \$378 million in NMTC allocation to finance the construction of health centers in low-income communities. The program, administered by the Community Development Financial Institutions Fund, a branch of the U.S. Department of the Treasury, requires that nonprofit award recipients create a for-profit entity or entities through which the tax credit allocation flows. As of June 30, 2022 and 2021, 30 and 29 NMTC LLCs are in use. During the years ended June 30, 2022 and 2021, 5 and 3 NMTC LLCs were unwound after the end of their 7-year compliance period.

Pursuant to the amended operating agreements for active NMTC LLCs, the Organization retains a 0.01% ownership interest when an investor member is identified in each entity. At that time, the investor member became the 99.99% owner making the necessary Qualified Equity Investment ("QEI") in the LLC while the Organization remains the managing member.

Primary Care Development Corporation and Affiliate
Notes to Consolidated Financial Statements
June 30, 2022 and 2021

In the indemnification agreements with each investor the Organization agrees to indemnify investors if there is a loss of NMTC related to their QEI triggered by certain recapture events as defined under the Code. The indemnification amounts vary with each agreement.

Absent gross or willful misconduct, the Organization's liability is subject to the aforementioned indemnification limit in each agreement with an estimated amount totaling \$18.9 million.

The Organization has systematic monitoring procedures in place to avoid recapture events through tracking and testing of transaction payments, review of quarterly financial statements, confirmation of compliance certificates and regular meetings of the Organization NMTC Advisory Board.

As managing members of each of the aforementioned NMTC LLCs, the Organization is entitled to asset management fees. Total asset management fees amounted to \$1,209,715 and \$1,119,362 for the years ended June 30, 2022 and 2021, respectively, and are included in program fees on the consolidated statements of activities. In addition, during the years ended June 30, 2022 and 2021, the Organization earned a total of \$2,028,750 and \$1,250,000, respectively, in financing fees through NMTC loan transactions. These amounts are reported as program fees on the consolidated statements of activities.

Primary Care Development Corporation and Affiliate
Notes to Consolidated Financial Statements
June 30, 2022 and 2021

Under the terms of the amended operating agreements, the Organization made a proportional equity contribution based on each QEI and the Organization's .01% membership interest in each NMTC LLC (see Note 2B).

The Organization's equity contributions net of returns in NMTC LLCs consist of the following as of June 30:

| | <u>2022</u> | <u>2021</u> |
|--|------------------|------------------|
| PCDC Empire State Health Opportunities Fund IV LLC | \$ - | \$ 951 |
| PCDC Health Opportunities Fund V LLC | - | 921 |
| PCDC Health Opportunities Fund VI LLC | - | 720 |
| PCDC Health Opportunities Fund VII LLC | - | 643 |
| PCDC Health Opportunities Fund VIII LLC | - | 377 |
| PCDC Health Opportunities Fund IX LLC | 483 | 486 |
| PCDC Health Opportunities Fund X LLC | 1,150 | 1,160 |
| PCDC Health Opportunities Fund XI LLC | 1,177 | 1,190 |
| PCDC Health Opportunities Fund XII LLC | 782 | 801 |
| PCDC Health Opportunities Fund XIII LLC | 1,228 | 1,240 |
| PCDC Health Opportunities Fund XIV LLC | 817 | 823 |
| PCDC Health Opportunities Fund XV LLC | 629 | 633 |
| PCDC Health Opportunities Fund XVI LLC | 777 | 782 |
| PCDC Health Opportunities Fund XVII LLC | 1,056 | 1,065 |
| PCDC Health Opportunities Fund XVIII LLC | 977 | 981 |
| PCDC Health Opportunities Fund XIX LLC | 859 | 859 |
| PCDC Health Opportunities Fund XX LLC | 535 | 539 |
| PCDC Health Opportunities Fund XXI LLC | 696 | 697 |
| PCDC Health Opportunities Fund XXII LLC | 882 | 886 |
| PCDC Health Opportunities Fund XXIII LLC | 960 | 972 |
| PCDC Health Opportunities Fund XXIV LLC | 783 | 788 |
| PCDC Health Opportunities Fund XXV LLC | 642 | 645 |
| PCDC Health Opportunities Fund XXVI LLC | 984 | 989 |
| PCDC Health Opportunities Fund XXVII LLC | 945 | 947 |
| PCDC Health Opportunities Fund XXVIII LLC | 989 | 996 |
| PCDC Health Opportunities Fund XXIX LLC | 890 | 897 |
| PCDC Health Opportunities Fund XXX LLC | 547 | 549 |
| PCDC Health Opportunities Fund XXXI LLC | 620 | 623 |
| PCDC Health Opportunities Fund XXXII LLC | 995 | - |
| PCDC Health Opportunities Fund XXXIII LLC | 598 | 600 |
| PCDC Health Opportunities Fund XXXIV LLC | 700 | - |
| PCDC Health Opportunities Fund XXXV LLC | 997 | - |
| PCDC Health Opportunities Fund XXXVI LLC | 998 | - |
| PCDC Health Opportunities Fund 38 LLC | 998 | - |
| PCDC Health Opportunities Fund 39 LLC | 1,650 | - |
| | <u>1,650</u> | <u>-</u> |
| Total | \$ 26,344 | \$ 23,760 |

In December 2013, the Organization entered into an agreement with two other CDFI's to form HealthCo as a financing vehicle to provide indirect facility financing for FQHC's. The Organization is one of three equal members at 33.33%. Under the limited liability company agreement, any income or expense of HealthCo is shared equally by the three members. As of June 30, 2022 and 2021, the Organization's investment in HealthCo of \$500 was reported in the accompanying consolidated financial statements as Investments in LLCs.

Primary Care Development Corporation and Affiliate
Notes to Consolidated Financial Statements
June 30, 2022 and 2021

During the year 2022, PCDC PFS01 LLC was formed to serve as the intermediary organization for a Pay for Success (“PFS”) initiative. Under this PFS model, investors and funders provide upfront capital necessary to support community-based interventions for Medicaid beneficiaries enrolled in a managed care health plan. These interventions are designed to reduce unnecessary healthcare utilization and therefore costs. The Medicaid managed care health plan then repays the investors based on savings realized from improved outcomes. PCDC PFS01, LLC is the borrowing entity that receives funds from the investors and disburses funds to service providers in accordance to the “Pay for Success” agreement. The investor has no recourse to PCDC PFS01, LLC except for the amounts in the project operating account. Receipts and disbursements of funds are in accordance with the approved project plan. These funds are recognized as agency transactions. As of June 30, 2022, cash and due to sponsor of \$1,399 are included in the consolidated statements of financial position.

Note 16 – Net assets with donor restrictions

Net assets with donor restrictions are restricted for the following purposes:

| | <u>2022</u> | <u>2021</u> |
|----------------------------------|----------------------|----------------------|
| Subject to purpose restrictions: | | |
| Financing | \$ 17,016,252 | \$ 17,016,252 |
| Operating | <u>1,053,451</u> | <u>724,251</u> |
| Total cost | 18,069,703 | 17,740,503 |
| Subject to time restrictions: | | |
| Operating | <u>5,550,000</u> | <u>9,000,000</u> |
| Total | <u>\$ 23,619,703</u> | <u>\$ 26,740,503</u> |

During the years ended June 30, 2022 and 2021, the Organization satisfied purpose and time restrictions in the amount of \$4,152,800 and \$762,000, respectively, associated with grants and contributions, and these amounts were released from net assets with donor restrictions.

Note 17 – Subsequent

In June 2022, all members approved to the voluntary dissolution of HealthCo. No business activities were performed subsequent to June 7, 2022 other than those required for liquidation, dissolution, withdrawal or cancellation of the LLC. The unwind process is expected to complete during the year ending 2023.

In July 2022, the Organization closed on a new \$10M borrowing facility with Bank of America (“BoA”). At closing, \$7.4 million was drawn down by PCDC, in accordance with an allocation plan provided to BoA. The remaining \$2.6 million must be drawn within 24 months of closing (July 2024). The facility is fixed-rate and extends for 20 years, with no principal repayments required during the first eight years.

Management has evaluated, for potential recognition and disclosure, events subsequent to the date of the consolidated statements of financial position through October 27, 2022, the date the consolidated financial statements were available to be issued.

Supplementary Information

Primary Care Development Corporation and Affiliate

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2022**

| Federal agency grantor/pass-through grantor/program or cluster title | Assistance listing number | Grant/contract number | Pass-through entity identifying number | Passed through to subrecipients | Expenditures of federal awards |
|---|---------------------------|-----------------------|--|---------------------------------|--------------------------------|
| U.S. Department of Health and Human Services | | | | | |
| Centers for Disease Control and Prevention | | | | | |
| Capacity Building Assistance ("CBA") for High-Impact HIV | 93.834 | 5 NU65PS923669-01 | N/A | \$ - | \$ 1,158,268 |
| Capacity Building Assistance ("CBA") for High-Impact HIV | 93.834 | 5 NU65PS923669-02 | N/A | - | 394,385 |
| Total Capacity Building Assistance ("CBA") for High Impact HIV Prevention Program | | | | - | 1,552,653 |
| Total U.S. Department of Health and Human Services | | | | - | 1,552,653 |
| U.S. Department of Treasury | | | | | |
| Community Development Financial Institutions Program | 21.020 | 201FA054406 | N/A | - | 597,500 |
| Community Development Financial Institutions Rapid Response Program | 21.024 | 21RRP056689 | N/A | - | 1,826,265 |
| Total U.S. Department of Treasury | | | | - | 2,423,765 |
| Total Expenditures of Federal Awards | | | | \$ - | \$ 3,976,418 |

See Notes to Schedule of Expenditures of Federal Awards.

Primary Care Development Corporation and Affiliate

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2022

Note 1 - Basis of presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal awards activity of Primary Care Development Corporation and Affiliate (the "Organization") under programs of the federal government for the year ended June 30, 2022. The information in the 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"). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the consolidated financial position, changes in net assets, or cash flows of the Organization. All financial assistance received directly from the federal agencies as well as financial assistance passed through other governmental agencies or nonprofit organizations is included on the Schedule.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 - Indirect Cost Rates

The Organization uses a federally approved indirect cost rate on all federal awards or contracts subject to grant limit or agency's approval.

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*

To the Board of Directors
Primary Care Development Corporation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Primary Care Development Corporation and Affiliate (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2022, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 27, 2022. The financial statements of PCDC PFS01, LLC was not audited in accordance with *Government Auditing Standards* and, accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with that entity.

Report on Internal Control over Financial Reporting

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

CohnReznick LLP

New York, New York
October 27, 2022

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

To the Board of Directors
Primary Care Development Corporation

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Primary Care Development Corporation and Affiliate (the "Organization") 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 each of the Organization's major federal programs for the year ended June 30, 2022. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each 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 Organization 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 each major federal program. Our audit does not provide a legal determination of the Organization'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 Organization'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 Organization'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 Organization's compliance with the requirements of each 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 Organization'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 Organization'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 Organization'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.



New York, New York
March 21, 2023

Primary Care Development Corporation and Affiliate

Schedule of Findings and Questioned Costs
Year Ended June 30, 2022

Section I - Summary of Auditor's Results

Financial Statements:

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards:

Internal control over major federal programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported

Type of auditor's report issued on compliance for major federal programs Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? yes no

Identification of major federal programs:

Name of Federal Program or Cluster Assistance Listing Number

Community Development Financial Institutions
Rapid Response Program 21.024

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as a low-risk auditee? yes no

Section II - Financial Statement Findings

None reported.

Section III - Federal Awards Findings and Questioned Costs

None reported.