PRIMARY CARE DEVELOPMENT CORPORATION

Consolidated Financial Statements
and Independent Auditor's Report

Years Ended June 30, 2023 and 2022

Primary Care Development Corporation and Affiliate

Contents

Page

Independent Auditor's Report

To the Board of Directors
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 statements of financial position as of June 30, 2023 and 2022, and the related consolidated statements of activities, functional expenses and cash flows for the years 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, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 2M to the consolidated financial statements, the Organization adopted Accounting Standards Update 2016-13, *Financial Instruments - Credit Losses* (Topic 326): Measurement of Credit Losses on Financial Instruments, which is referred to as the current expected credit loss ("CECL") methodology. Accounting Standards Codification 326-20's CECL methodology requires an estimate of expected credit losses. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the 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 Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if 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, 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 audits.

CohnReznick LLP

New York, New York
December 12, 2023

Primary Care Development Corporation and Affiliate
Consolidated Statements of Financial Position
June 30, 2023 and 2022

	2023	2022
Assets		
Current Assets		
Cash and cash equivalents	$ 5,452,939	$ 10,108,890
Restricted cash	11,785,978	11,136,590
Investments	42,840,486	45,729,944
Accounts receivable, net	1,254,977	967,623
Grants and contributions receivable	949,124	1,219,385
Loans receivable, net	19,122,991	5,401,150
Restricted lease payments, net	304,991	487,937
Restricted investments	-	566,017
Prepaid expenses and other assets	243,390	240,318
Total Current Assets	81,954,876	75,857,854
Non-Current Assets		
Restricted cash	-	4,054,980
Restricted investments	349,193	919,775
Property and equipment, net	143,335	185,806
Loans receivable, net	56,672,968	47,367,758
Restricted reserves	3,163,868	3,555,246
Investments in LLCs, net	25,266	26,844
Right of use asset - operating lease	667,386	1,120,226
Total Assets	$ 142,976,892	$ 133,088,489
Liabilities		
Current Liabilities		
Accounts payable and accrued expenses	$ 1,122,722	$ 1,669,572
Loans and other debt obligations	952,381	1,350,000
Due to New York City - bond program	304,991	487,937
Other	1,213,772	440,419
Operating lease liability	541,793	513,213
Total Current Liabilities	4,135,659	4,461,141
Non-Current Liabilities		
Reserves and deposits payable	3,163,868	3,555,246
Loans and other debt obligations	46,111,259	40,863,640
Equity equivalent debt	4,000,000	4,000,000
Due to third party	19,696,998	19,565,773
Other	5,199,255	1,156,522
Operating lease liability	235,486	777,279
Total Liabilities	82,542,525	74,379,601
Commitments and Contingencies		
Net Assets		
Without donor restrictions	40,625,115	35,089,185
With donor restrictions	19,809,252	23,619,703
Total Net Assets	60,434,367	58,708,888
Total Liabilities and Net Assets	$ 142,976,892	$ 133,088,489

Primary Care Development Corporation and Affiliate
Consolidated Statements of Activities
For the Years Ended June 30, 2023 and 2022

	For the Year Ended June 30, 2023			For the Year Ended June 30, 2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating Support and Revenue						
Public Support						
Grants and contributions	$ 3,198,186	$ 793,000	$ 3,991,186	$ 5,294,451	$ 1,032,000	$ 6,326,451
Special events	385,385	-	385,385	160,946	-	160,946
Contributed services	11,316	-	11,316	25,582	-	25,582
Total Public Support	3,594,887	793,000	4,387,887	5,480,979	1,032,000	6,512,979
Revenue						
Program fees	5,632,266	-	5,632,266	7,050,548	-	7,050,548
Interest on loans	3,219,940	-	3,219,940	3,404,948	-	3,404,948
Interest and dividends	1,080,511	-	1,080,511	295,416	-	295,416
Other revenue	81	-	81	565	-	565
Total Revenue	9,932,798	-	9,932,798	10,751,477	-	10,751,477
Net Assets Released from Restrictions	4,603,451	(4,603,451)	-	4,152,800	(4,152,800)	-
Total Operating Support and Revenue	18,131,136	(3,810,451)	14,320,685	20,385,256	(3,120,800)	17,264,456
Operating Expenses						
Program services	12,200,260	-	12,200,260	10,329,485	-	10,329,485
Management and general	2,890,705	-	2,890,705	2,408,060	-	2,408,060
Development	174,126	-	174,126	90,458	-	90,458
Total Operating Expenses	15,265,091	-	15,265,091	12,828,003	-	12,828,003
Change in Net Assets from Operations	2,866,045	(3,810,451)	(944,406)	7,557,253	(3,120,800)	4,436,453
Non-Operating Loss						
Realized loss on investment and restricted reserves	(99,525)	-	(99,525)	(21,848)	-	(21,848)
Unrealized loss on investments and restricted reserves	(51,207)	-	(51,207)	(818,893)	-	(818,893)
Total Non-Operating Loss	(150,732)	-	(150,732)	(840,741)	-	(840,741)
Total Change in Net Assets	2,715,313	(3,810,451)	(1,095,138)	6,716,512	(3,120,800)	3,595,712
Net Assets - Beginning of Year	35,089,185	23,619,703	58,708,888	28,372,673	26,740,503	55,113,176
Change in accounting policy	2,820,617	-	2,820,617	-	-	-
Net Assets - End of Year	$ 40,625,115	$ 19,809,252	$ 60,434,367	$ 35,089,185	$ 23,619,703	$ 58,708,888

Primary Care Development Corporation and Affiliate
Consolidated Statements of Functional Expenses
For the Year Ended June 30, 2023
(With Comparative Totals For the Year Ended June 30, 2022)

	Program Services				Supporting Services				
	Capital Investment	Clinical Quality Partners	Strategy & Public Affairs	Total Program Services	Management and General	Development	Total Supporting Services	Total 2023	Total 2022
Salaries and wages	$ 1,915,567	$ 2,966,196	$ 1,018,960	$ 5,900,723	$ 1,664,920	$ 75,850	$ 1,740,770	$ 7,641,493	$ 6,815,202
Payroll taxes and fringe benefits	418,762	716,903	245,657	1,381,322	325,152	15,021	340,173	1,721,495	1,494,019
Total Salaries and Related Costs	2,334,329	3,683,099	1,264,617	7,282,045	1,990,072	90,871	2,080,943	9,362,988	8,309,221
Interest	1,299,904	-	-	1,299,904	-	-	-	1,299,904	1,259,771
Legal and accounting fees	896,210	6,412	-	902,622	94,579	-	94,579	997,201	895,591
Professional fees	94,271	468,034	171,779	734,084	53,917	12,850	66,767	800,851	861,877
Occupancy costs	133,276	232,539	89,600	455,415	115,393	5,343	120,736	576,151	548,647
Equipment maintenance and rental	34,035	77,914	59,724	171,673	85,797	1,234	87,031	258,704	272,382
Travel	43,293	142,263	21,375	206,931	67,608	192	67,800	274,731	135,278
Other	11,976	11,510	13,233	36,719	165,243	1,927	167,170	203,889	128,740
Supplies and printing	9,972	16,900	12,898	39,770	6,721	7,066	13,787	53,557	115,451
Conferences, events and meetings	32,904	20,986	30,629	84,519	29,579	51,250	80,829	165,348	99,715
Insurance	500	-	-	500	170,716	-	170,716	171,216	82,366
Bank and miscellaneous fees	10,680	17,109	510	28,299	58,630	2,213	60,843	89,142	76,753
Depreciation and amortization	16,615	29,116	11,213	56,944	14,394	733	15,127	72,071	74,426
Telephone and internet	11,039	19,306	7,465	37,810	9,537	447	9,984	47,794	46,928
Provision for doubtful accounts	-	10,575	-	10,575	-	-	-	10,575	45,000
Dues and subscriptions	18,526	8,777	26,889	54,192	17,203	-	17,203	71,395	27,059
Provision for credit losses	798,258	-	-	798,258	-	-	-	798,258	(176,784)
Contributed services	-	-	-	-	11,316	-	11,316	11,316	25,582
Total Other Than Personnel Service	3,411,459	1,061,441	445,315	4,918,215	900,633	83,255	983,888	5,902,103	4,518,782
Total Expenses	$ 5,745,788	$ 4,744,540	$ 1,709,932	$ 12,200,260	$ 2,890,705	$ 174,126	$ 3,064,831	$ 15,265,091	$ 12,828,003

Primary Care Development Corporation and Affiliate
Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2022

	Program Services				Supporting Services			
	Capital Investment	Clinical Quality Partners	Strategy & Public Affairs	Total Program Services	Management and General	Development	Total Supporting Services	Total
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 credit 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

Primary Care Development Corporation and Affiliate
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2023 and 2022

	2023	2022
Cash flows from operating activities		
Change in net assets	$ (1,095,138)	$ 3,595,712
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Provisions for credit losses	798,258	(176,784)
Provisions for uncollectible receivables	-	45,000
Depreciation and amortization	72,071	74,426
Realized loss on investments, restricted reserves and investments in LLCs	99,525	21,848
Unrealized gain on investments and restricted reserves	51,207	818,893
Non-cash lease costs	452,840	438,639
Non-cash change in operating lease liabilities	30,124	44,325
Changes in operating assets and liabilities:		
(Increase) decrease in operating assets:		
Accounts receivable	(287,354)	(294,458)
Grants and contributions receivable	270,261	52,004
Restricted reserves and lease payments	574,324	675,085
Prepaid expenses and other assets	(3,072)	42,559
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(546,850)	(172,533)
Reserves and deposits payable	(391,378)	(579,634)
Operating lease liability	(543,337)	(530,085)
Other	73,341	-
Net cash (used in) provided by operating activities	(445,178)	4,054,997
Cash flows from investing activities		
Disbursements under loan programs	(46,801,896)	(22,825,588)
Collections under loan programs	17,480,375	22,339,408
Participations sold	9,000,000	761,934
Purchases of investments and restricted reserves	(94,291)	(8,455,339)
Proceeds from the sale of investments and restricted reserves	3,969,616	819,595
Net investments in LLCs	1,578	(2,584)
Purchase of property and equipment	(29,600)	(3,386)
Net cash used in investing activities	(16,474,218)	(7,365,960)
Cash flows from financing activities		
Due to third party	131,225	8,052
Proceeds from loan payable	10,000,000	-
Repayments of loans and other debt	(5,150,000)	-
Receipts for loan participations	4,500,000	380,665
Repayments of loan participations	(440,426)	(439,065)
Due to New York City - bond program	(182,946)	(95,450)
Net cash provided by (used in) financing activities	8,857,853	(145,798)
Net decrease in cash, cash equivalent and restricted cash	(8,061,543)	(3,456,761)
Cash, cash equivalents and restricted cash - beginning of year	25,300,460	28,757,221
Cash, cash equivalents and restricted cash - end of year	$ 17,238,917	$ 25,300,460
Supplementary Disclosure of Cash Flow Information:		
Cash paid for amounts included in the measurement of lease liabilities	$ 543,336	$ 530,804
Cash paid during the year for interest	1,299,904	1,259,771

See Notes to Consolidated Financial Statements

Note 1 – Organization and nature of activities

Primary Care Development Corporation ("PCDC") was founded in 1993 on the basis that high-quality primary care saves lives; is the foundation of strong communities; and is essential to achieving health equity.

- PCDC supports healthy, thriving communities across the country through capital financing, expertise and advocacy.
- PCDC is certified by the United States Department of the Treasury as a Community Development Financial Institution ("CDFI").
- PCDC is classified as a tax-exempt "publicly supported" organization under Sections 501(c)(3) and Section 509(a)(1) of the Internal Revenue Code (the "Code").
- PCDC holds a "AA+" financial strength rating and a "Four Star" impact performance rating with "Policy Plus" from the independent CDFI rating agency, Aeris.

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; administering the New York State-funded Community Health Care Revolving Loan Fund; and other targeted loan and financing options for primary care providers.

To date, PCDC has financed more than $1.7 billion of primary care projects through direct investment and leverage, transforming more than 2.8 million square feet of space. This has created more than 6,900 construction jobs and created or preserved more than 12,900 permanent jobs in low-income communities. On an annual basis, this has resulted in creating capacity for more than 4.8 million estimated medical visits for over 1.4 million estimated patients across the U.S.

Consulting & Training: PCDC partners with health centers and primary care practices to transform and sustain their operations. 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 5,000 total primary care and trained more than 17,500 providers and staff nationwide.

PCDC's services include customized training, coaching, and consulting across three primary areas:

- **Financial Literacy and Management -** Enabling providers to gain knowledge and insight into their financials to ensure their continued capacity to serve their communities.
- **Data-Driven Operations and Change -** Supporting organizations to leverage data to drive improvements in their operations, access, and impact.
- **Team-Based and Integrated Care -** Coaching organizations to integrate services and care teams to deliver expert, patient-centered, and culturally responsive care.

Strategy & Public Affairs: PCDC drives and supports primary care policy initiatives at the federal, state, and local levels. It raises awareness and advocates for policies that increase investment and prioritize equity in primary care access, quality, and funding. PCDC supports this work by conducting research and analyzing data on primary care access and health inequities across the country, thereby informing policy discussions at both the state and national levels.

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 and consolidated statements of activities.

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), 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.

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:

	2023	2022
Cash and cash equivalents	$ 5,452,939	$ 10,108,890
Restricted cash - current	11,785,978	11,136,590
Restricted cash - non-current	-	4,054,980
Total	$ 17,238,917	$ 25,300,460

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 Losses*** - As determined by the Organization, an allowance for credit losses on loans ("ACL") of $725,102 and $3,430,632 was provided for loans receivable as of June 30, 2023 and 2022, respectively. As further described in Note 2M, the Organization adopted Accounting Standards Update ("ASU") 2016-13, *Financial Instruments – Credit Losses* (Topic 326): Measurement of Credit Losses on Financial Instruments on July 1, 2022 resulting in a decrease in the ACL. In addition, as required by Topic 326, an allowance on unfunded loan commitments of $683,171 was provided as of June 30, 2023. Because of the date of adoption of Topic 326, no allowance on unfunded loan commitments was required for the year ended June 30, 2022. Allowance for doubtful accounts against accounts receivable was at $45,000 as of June 30, 2023 and 2022. At June 30, 2023 and 2022, 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 as well as reasonable and supportable forecasts when applicable. Further discussion of management's assessment for the ACL and allowance for unfunded loan commitments can be found in Notes 6E and F.

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, 2023 and 2022, approximately $1,254,000 and $3,353,000 of such grants are available for future revenue recognition provided that certain 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 ("NYC") 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:

	2023	2022
Financing	$ 3,959,639	$ 4,740,436
Consulting	1,672,627	2,310,112
Total	$ 5,632,266	$ 7,050,548

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. ***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, employee 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.

L. ***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.

M. ***Recently Enacted Accounting Standards*** - On July 1, 2022, the Organization adopted Topic 326, which is referred to as the current expected credit loss ("CECL") methodology and recorded a cumulative adjustment of $2,820,617 in the consolidated statement of activities due to the change in accounting policy. ASC 326-20's CECL methodology requires an estimate of expected credit losses, measured over the remaining contractual life of financial assets using historical experience, current conditions and reasonable and supportable forecasts and generally applies to financial assets measured at amortized costs, including loan receivables and off-balance sheet unfunded commitments. Results for reporting periods after July 1, 2022 are presented under ASC 326 while prior period amounts continue be reported in accordance with previously applicable U.S. GAAP. The adoption of the ASU did not affect net assets as of June 30, 2022.

The Organization adopted ASU 2016-02 (as amended), *Leases* (Topic 842) on July 1, 2021. Topic 842 requires lessees to recognize a right-of-use asset and a corresponding lease liability for most leases. The Organization elected and applied the following transition practical expedients when initially adopting Topic 842:

- The package of practical expedients permitting the Organization to not reassess **(i)** the lease classification of existing leases; **(ii)** whether existing and expired contracts are or contain leases; and **(iii)** initial direct costs for existing leases.
- To combine non-lease components with their related lease components and account for them as a single combined lease component for all leases.

The Organization recognized the following as of the adoption date in connection with transitioning to Topic 842:

	As of July 1, 2021
Operating lease right of use assets	$ 1,558,865
Operating lease liabilities	1,776,251

The Organization’s adoption of Topic 842 also resulted in a decrease of $217,387 in deferred rent, which was reclassified to operating lease right-of-use assets at adoption. The adoption of Topic 842 did not have a material impact on the Organization’s change in net assets for the year ended June 30, 2022.

N. ***Reclassification***

Certain amounts in the 2022 consolidated financial statements were reclassified to conform to 2023 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:

	2023	2022
Cash and cash equivalents	$ 5,452,939	$ 10,108,890
Investments	42,840,486	45,729,944
Accounts receivable	1,254,977	967,623
Grants and contributions receivable, net	949,124	1,219,385
	50,497,526	58,025,842
Less: Investments not available for general expenditures	(8,687,155)	(13,253,816)
	$ 41,810,371	$ 44,772,026

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, 2023 and 2022, the Organization maintains sufficient operating liquidity to cover approximately 35 months and 33 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. In addition, a portion of the assets available for investing were moved to a mixed fixed-income portfolio with maturities and durations aligned with anticipated Organization funding needs for financing according to the Organization’s investment policy, taking steps to ensure capital preservation and availability.

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 assts 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 and fixed income 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, 2023 and 2022, there were no transfers between fair value levels occurred.

Financial assets carried at fair value at June 30, 2023 are classified in the table below as follows:

	Level 1	Level 2	Total
Restricted and Unrestricted Investments:			
Money market funds	$ 19,833,814	$ -	$ 19,833,814
Bonds:			
Corporate obligations	-	5,576,273	5,576,273
U.S. government securities	-	265,140	265,140
Fixed income funds	17,514,452	-	17,514,452
Total	$ 37,348,266	$ 5,841,413	$ 43,189,679

Financial assets carried at fair value at June 30, 2022 are classified in the table below 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
Total	$ 40,248,370	$ 6,967,366	$ 47,215,736

At June 30, 2023 and 2022, the Organization had restricted investments of $349,193 and $1,485,792, 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, 2023 and 2022, restricted reserves consist primarily of cash or money market accounts.

As of June 30, 2023 and 2022, reserves and deposits payable consist of the following:

	2023	2022
Bond program sponsors' reserve deposits (see note 14A)	$ 1,197,581	$ 1,763,597
PCDC borrower's reserve deposits	1,937,462	1,774,264
Interest payable to project sponsors and borrowers	28,825	17,385
Total	$ 3,163,868	$ 3,555,246

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, 2023 and 2022, approximately 87% and 63%, respectively, of loans receivable outstanding are fixed rate loans (rates varying from 3% to 6% at June 30, 2023 and 2022). The remaining 13% and 37% are variable rate loans with interest resets at periodic intervals (rates varying from 2% to 7.25% at June 30, 2023 and 2022).

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.

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:

	2023				
	Acquisition/ predevelopment loans	Bridge and other loans	Permanent and construction loans	General	Total
Loans receivable	$ 10,442,067	$ 6,268,846	$ 59,810,148	$ -	$ 76,521,061
Less: allowance for credit losses	(10,547)	(156,765)	(557,790)	-	(725,102)
Loans receivable, net	$ 10,431,520	$ 6,112,081	$ 59,252,358	$ -	$ 75,795,959

	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 credit losses	(451,195)	(319,513)	(1,792,430)	(867,494)	(3,430,632)
Loans receivable, net	$ 8,572,691	$ 6,911,475	$ 38,152,236	$ (867,494)	$ 52,768,908

The following is a summary of the scheduled principal repayments to be received on all of the Organization's loans (after the allowance for credit loss reserves) for the five years subsequent to June 30, 2023 and thereafter:

2024	$ 19,122,991
2025	8,459,524
2026	3,919,049
2027	6,204,639
2028	3,095,438
Thereafter	34,994,318
Total	$ 75,795,959

As of June 30, 2023, loans approved and committed for future funding totaled approximately $14,995,000.

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, 2023 and 2022, loan participations of $5,655,116 and $1,595,542, respectively, are included in loans receivable and offset by $5,655,116 and $1,595,542 of other liabilities, respectively.

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:

	2023			
	Accruing, current	Accruing 30 days plus past due	Non-accrual Loans	Total
Acquisition/predevelopment loans	$ 10,442,067	$ -	$ -	$ 10,442,067
Bridge and other loans	6,268,846	-	-	6,268,846
Permanent and construction loans	59,810,148	-	-	59,810,148
Total	$ 76,521,061	$ -	$ -	$ 76,521,061

	2022			
	Accruing, current	Accruing 30 days plus past due	Non-accrual Loans	Total
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
Total	$ 56,199,540	$ -	$ -	$ 56,199,540

E. Credit Quality Indicators

The Organization pools its loans based on 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 credit 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 Senior Director for Portfolio Management.

Characteristics of each risk rating level 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:

	2023			
	Acquisition/ predevelopment loans	Bridge and other loans	Permanent and construction loans	Total
Strong	$ 616,874	$ 550,117	$ 10,670,636	$ 11,837,627
Acceptable	8,000,000	4,121,486	37,029,088	49,150,574
Special mention	1,825,193	1,097,243	10,420,101	13,342,537
Substandard	-	500,000	1,690,323	2,190,323
Loans receivable	$ 10,442,067	$ 6,268,846	$ 59,810,148	$ 76,521,061

	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	$ 9,023,886	$ 7,230,988	$ 39,944,666	$ 56,199,540

F. <u>Allowance for Credit Losses ("ACL")</u>

The allowance for credit losses 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 expected credit losses for the portfolio. The allowance is adjusted quarterly through charges to a non-cash provision for credit losses account based on management's best estimate of lifetime credit losses inherent in loans as of reporting date. This includes an assessment of such factors as projected growth and changes in the portfolio, industry and market trends, economic forecasts and environmental factors from historical data, current conditions, and reasonable and supportable forecasts. Management has reviewed expected future environmental conditions as of the consolidated statement of financial position date and does not foresee any changes which could reasonably be forecast and quantified to impact particular subsets of current borrowers with shared characteristics. 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.

The calculation of ACL is based on gross loans value at risk including unfunded contractual commitments to lend that cannot be unconditionally cancelled net of the Organization's share of borrowers funded reserves and collateral. An analysis of the allowance for credit losses by loan program as June 30 is summarized as follows:

	2023				
	Acquisition/ predevelopment loans	Bridge and other loans	Permanent and construction loans	General	Total
Beginning balance	$ 451,195	$ 319,513	$ 1,792,430	$ 867,494	$ 3,430,632
Adjustment for Adoption of Topic 326	(436,267)	(170,227)	(1,392,964)	(867,494)	(2,866,952)
Charge-offs	-	-	-	-	-
Recoveries	-	-	-	-	-
Change in provision for credit losses	(4,381)	7,479	158,324	-	161,422
Ending balance	$ 10,547	$ 156,765	$ 557,790	$ -	$ 725,102

	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 credit losses	144,056	166,396	(487,235)	-	(176,783)
Ending balance	$ 451,195	$ 319,513	$ 1,792,430	$ 867,494	$ 3,430,632

At June 30, 2023 and 2022, all loans are individually evaluated for impairment.

G. <u>Unfunded commitments</u>

The Organization maintains a separate reserve for credit losses related to off-balance sheet credit exposures, including unfunded loan commitments, which is included in other liabilities on the consolidated statement of financial position. The reserve for off-balance sheet exposures is adjusted as a provision for credit losses on commitments expected to be funded over its estimated life, utilizing the same models and approaches for the Organization's loan portfolio segments described above, as these unfunded commitments share similar risk characteristics as its loan portfolio segments. At June 30, 2023, the liability for credit losses on off-balance sheet credit exposures included in other liabilities was $683,171.

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:

	2023	2022
Government	$ 539,174	$ 919,385
Corporations and others	409,950	300,000
Total	$ 949,124	$ 1,219,385

Note 8 – Property and equipment, net

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

	2023	2022	Estimated Useful Lives
Leasehold improvements	$ 384,768	$ 375,168	See Note 2E
Computer equipment and software	183,338	183,338	3-5 years
Furniture and fixtures	120,737	120,737	5-10 years
Project in progress	20,000	-	
Total cost	708,843	679,243	
Less: accumulated depreciation and amortization	(565,508)	(493,437)	
Total	$ 143,335	$ 185,806	

Depreciation and amortization amounted to $72,071 and $74,426 for the years ended June 30, 2023 and 2022, respectively.

Project in progress includes website development in progress completed in October 2023, with a total cost of completion of approximately $100,000.

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, 2023 and 2022 amounted to $366,902 and $282,815, respectively.

Note 10 – Loans and other debt obligations

The Organization is a party to unsecured and secured 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, 2023 and 2022, the Organization had an outstanding loan totaling $0 and $1,350,000, respectively, with a variable interest rate at 250 basis points plus a selected index (4.171% at June 30, 2022).

At June 30, 2023 and 2022, the Organization has outstanding loans and other debt obligations totaling $45,200,000 and $39,000,000, respectively, with fixed interest rates ranging from 0% to 3% and maturity dates from 2025 to 2028. The Organization is fully liable for all funds drawn and outstanding under the credit agreements.

At June 30, 2023 and 2022, the Organization also has an unsecured loan of $1,863,640 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.

The interest expense related to financing excluding loan participations for the years ended June 30, 2023 and 2022, amounted to $1,157,479 and $1,186,602, respectively.

There are certain financial covenants and reporting requirements under each credit or loan agreement. As of June 30, 2023 and 2022, the Organization was in compliance with all financial and reporting covenants.

Aggregate principal payments to be paid are as follows for the five years after June 30, 2023 and thereafter:

2024	$	952,381
2025		4,628,571
2026		11,619,048
2027		12,863,640
2028		3,000,000
Thereafter		14,000,000
Total	$	47,063,640

Undrawn lines of credit at June 30, 2023 and 2022 were $22,900,000 and $17,000,000, respectively.

Note 11 – Equity equivalent debt (EQ2)

The Organization entered into separate EQ2 agreements with two financial institutions totaling $4,000,000 at June 30, 2023 and 2022 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 $11,703,129 and $14,367,646 as of June 30, 2023 and 2022, respectively, and are included in restricted cash in the accompanying consolidated statements of financial position. As of June 30, 2023 and 2022, $19,696,998 and $19,565,773 are recorded as due to third party in the accompanying consolidated statements of financial position, and represent 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, 2023 and 2022, DASNY has $7.4 million and $9.6 million, respectively, of such bonds outstanding. The DASNY bonds at the start of fiscal years 2023 and 2022 consisted of five and six bond-financed projects, respectively, two of which are to the same borrower. During the years ended June 30, 2023 and 2022, the operating lease ended for two and zero health care centers, respectively. 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 NYC, which is fully responsible for repayment of the bonds through lease payments. NYC, in turn, entered into sublease agreements with the Organization, which is obligated to make lease payments to NYC. 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 Organization did not apply Topic 842 to the lease with NYC because the Organization is administering the program on behalf of the NYC. The asset (restricted lease payments received) represents lease payments made by sponsors to the Organization and not yet remitted to the NYC. “Due to New York City – Bond Program” is the liability that offsets this asset and reflects lease payments due to the NYC.

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, 2023 and 2022, the Organization is in compliance with this requirement and has deposited $349,193 and $1,485,792, respectively, in the Organization bond reserve account (see Note 4), and has received reserves of $1,197,581 and $1,763,597, respectively, from sponsors as of June 30, 2023 and 2022 (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.

In the event of bankruptcy by a project sponsor, the Organization’s liability to make lease payments to NYC 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 NYC for the total amount of future lease payments including principal, interest and fees, as follows:

2024	$ 1,674,732
2025	762,699
2026	763,432
2027	763,111
2028	761,745
Thereafter	5,203,779
Total	$ 9,929,498

B. The Organization entered into a noncancellable operating lease for its City office space for 10 years ending in November 2024. The lease is classified on the consolidated statements of financial position as a right-of-use asset totaling $667,386 and $1,120,226 and a related lease liability totaling $777,279 and $1,290,492 as of June 30, 2023 and 2022, respectively.

Future rental lease payments for the right-of-use asset are as follows:

2024	$ 556,920
2025	237,172
Total undiscounted operating lease payments	794,092
Less: interest discount	(16,813)
Present value of operating lease liability	$ 777,279

As of both June 30, 2023 and 2022, rent expense based on a straight-line basis amounted to $483,214. Variable lease costs and contingent rents totaled $92,937 and $56,128 for the years ended June 30, 2023 and 2022, respectively, and are expensed as incurred.

The risk-free discount rate used for the operating lease is 2.85% and the remaining term on the lease is 17 months.

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, 2023 and 2022 in accordance with FASB ASC Topic 740, which provides standards for establishing and classifying any tax provisions for uncertain tax positions.

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 certain borrowers under its lending program are required to post 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, 2023, the top three borrowers totaled to approximately $17.3 million, representing approximately 24% of the Organization’s total loans receivable. 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 totaled to approximately $18.3 million, representing 23% of the Organization’s total assets under management. As of June 30, 2022, the top three lending relationships amounted to approximately $15.8 million in loans receivable and $19.0 million in assets under management, representing 29% each of the Organization’s total.

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 $35,614,000 and $69,096,000 as of June 30, 2023 and 2022, 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, 2023 and 2022, 29 and 30 NMTC LLCs, respectively, are in use. During the years ended June 30, 2023 and 2022, 4 and 5 NMTC LLCs, respectively, 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.

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 $18.1 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’s 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 $1,357,685 and $1,209,715 for the years ended June 30, 2023 and 2022, respectively, and are included in program fees on the consolidated statements of activities. In addition, during the years ended June 30, 2023 and 2022, the Organization earned a total of $966,875 and $2,028,750, respectively, in financing fees through NMTC loan transactions. These amounts are reported as program fees on the consolidated statements of activities.

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:

	2023	2022
PCDC Health Opportunities Fund IX LLC	$ -	$ 483
PCDC Health Opportunities Fund X LLC	-	1,150
PCDC Health Opportunities Fund XI LLC	-	1,177
PCDC Health Opportunities Fund XII LLC	-	782
PCDC Health Opportunities Fund XIII LLC	1,214	1,228
PCDC Health Opportunities Fund XIV LLC	813	817
PCDC Health Opportunities Fund XV LLC	626	629
PCDC Health Opportunities Fund XVI LLC	772	777
PCDC Health Opportunities Fund XVII LLC	1,048	1,056
PCDC Health Opportunities Fund XVIII LLC	972	977
PCDC Health Opportunities Fund XIX LLC	841	859
PCDC Health Opportunities Fund XX LLC	532	535
PCDC Health Opportunities Fund XXI LLC	697	696
PCDC Health Opportunities Fund XXII LLC	877	882
PCDC Health Opportunities Fund XXIII LLC	949	960
PCDC Health Opportunities Fund XXIV LLC	778	783
PCDC Health Opportunities Fund XXV LLC	640	642
PCDC Health Opportunities Fund XXVI LLC	975	984
PCDC Health Opportunities Fund XXVII LLC	943	945
PCDC Health Opportunities Fund XXVIII LLC	982	989
PCDC Health Opportunities Fund XXIX LLC	884	890
PCDC Health Opportunities Fund XXX LLC	544	547
PCDC Health Opportunities Fund XXXI LLC	616	620
PCDC Health Opportunities Fund XXXII LLC	595	995
PCDC Health Opportunities Fund XXXIII LLC	990	598
PCDC Health Opportunities Fund XXXIV LLC	695	700
PCDC Health Opportunities Fund XXXV LLC	987	997
PCDC Health Opportunities Fund XXXVI LLC	992	998
PCDC Health Opportunities Fund 38 LLC	992	998
PCDC Health Opportunities Fund 39 LLC	1,639	1,650
PCDC Health Opportunities Fund 40 LLC	800	-
PCDC Health Opportunities Fund 41 LLC	1,222	-
PCDC Health Opportunities Fund 41 LLC	651	-
Total	$ 25,266	$ 26,344

In December 2013, the Organization entered into an agreement with two other CDFIs to form HealthCo as a financing vehicle to provide indirect facility financing for FQHCs. 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. During the year 2023, HealthCo was dissolved with final distributions made to all 3 members.

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, 2023 and 2022, restricted cash of $74,740 and $1,399, respectively, offset by due to sponsor of $74,740 and $1,399, respectively, is 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:

	2023	2022
Subject to purpose restrictions:		
Financing	$ 17,016,252	$ 17,016,252
Program operations	793,000	1,053,451
Total cost	17,809,252	18,069,703
Subject to time restrictions:		
Program operations	2,000,000	5,550,000
Total	$ 19,809,252	$ 23,619,703

During the years ended June 30, 2023 and 2022, the Organization satisfied purpose and time restrictions in the amount of $4,603,451 and $4,152,800, respectively, associated with grants and contributions, and these amounts were released from net assets with donor restrictions.

Note 17 – Subsequent events

Management has evaluated, for potential recognition and disclosure, events subsequent to the date of the consolidated statements of financial position through December 12, 2023, the date the consolidated financial statements were available to be issued.

Subsequent to year end, the Organization violated certain debt covenants due to not meeting the timeline for recertification with the CDFI Fund. Management is in the process of correcting this condition and management notified the banks of the violation. As of the date of the auditor's report, no bank has notified the Organization of their intention to demand repayment.

CohnReznick

ADVISORY • ASSURANCE • TAX

Independent Member of Nexia International

cohnreznick.com