PRC

Independent Auditor's Report
and Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

PRC

Years Ended December 31, 2018 and 2017

Table of Contents

INDEPENDENT AUDITOR'S REPORT

Board of Directors
PRC

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of PRC (a California not-for-profit corporation), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expression of an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PRC as of December 31, 2018 and 2017, 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.

1550 Parkside Drive, Suite 260, Walnut Creek, CA 94596
www.bhlfcpa.com

Other Matters

Other 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*, is presented for purposes of additional analysis and is not a required part of the 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 information is fairly stated in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2019, on our consideration of PRC'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 PRC'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 PRC's internal control over financial reporting and compliance.

BHLF LLP

Walnut Creek, California
May 31, 2019

PRC

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2018 and 2017

	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,395,350	$ 4,242,871
Cash held by others	9,200	12,560
Accounts receivable, net	3,408,304	1,473,074
Government grants receivable	455,479	1,031,751
Pledges and grants receivable	137,543	64,626
Prepaid expenses	265,454	277,718
Restricted cash	48,107	45,801
Total current assets	6,719,437	7,148,401
Investments	1,621,596	2,236,135
Property and equipment, net	18,607,931	15,602,662
Intangibles, net	615,477	807,323
Deposit	592,300	109,888
Total assets	$ 28,156,741	$ 25,904,409
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 2,577,740	$ 280,988
Accrued compensation	841,598	741,884
Deferred revenue	1,909,507	2,050,602
Unemployment trust	9,200	12,560
Current portion of capital leases	41,136	51,564
Current portion of long-term debt	34,976	33,588
Line of credit	-	410,000
Total current liabilities	5,414,157	3,581,186
Accrued interest	793,325	747,069
Deferred revenue, net of current portion	1,618,618	1,717,488
Deferred rent	984,104	189,696
Capital leases, net of current portion	11,767	52,030
Long-term debt, net of current	1,997,462	2,014,106
Other liabilities	196,548	458,613
Total liabilities	11,015,981	8,760,188
Net assets		
Without donor restrictions	17,140,760	17,114,347
With donor restrictions	-	29,874
Total net assets	17,140,760	17,144,221
Total liabilities and net assets	$ 28,156,741	$ 25,904,409

See notes to financial statements

PRC

CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Operating activities			
REVENUE AND SUPPORT			
Government awards	$ 20,628,914	$ -	$ 20,628,914
Program fees	1,056,641	-	1,056,641
Foundation and corporate grants	214,157	352,173	566,330
Contributions	511,873	-	511,873
Fundraising event, net	399,676	-	399,676
Client rent	346,391	-	346,391
Other	242,368	-	242,368
Net assets released from restrictions	382,047	(382,047)	-
Total revenue and support	23,782,067	(29,874)	23,752,193
EXPENSES			
Program	19,620,130	-	19,620,130
Management and general	2,664,141	-	2,664,141
Fundraising	1,339,345	-	1,339,345
Total expenses	23,623,616	-	23,623,616
Change in net assets from operations	158,451	(29,874)	128,577
Nonoperating activities			
Investment loss, net	(132,038)	-	(132,038)
Total nonoperating activities	(132,038)	-	(132,038)
CHANGE IN NET ASSETS	26,413	(29,874)	(3,461)
Net assets, beginning of year	17,114,347	29,874	17,144,221
Net assets, end of year	$ 17,140,760	$ -	$ 17,140,760

See notes to financial statements

PRC

CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Operating activities			
REVENUE AND SUPPORT			
Government awards	$ 13,323,991	$ -	$ 13,323,991
Foundation and corporate grants	307,523	163,320	470,843
Contributions	454,304	-	454,304
Inherent contribution of acquired net assets	17,132,561	-	17,132,561
Fundraising event, net	179,670	-	179,670
Program fees	957,448	-	957,448
Client rent	248,535	-	248,535
Other	138,261	-	138,261
Net assets released from restrictions	557,788	(557,788)	-
Total revenue and support	33,300,081	(394,468)	32,905,613
EXPENSES			
Program	14,855,495	-	14,855,495
Management and general	2,298,314	-	2,298,314
Fundraising	953,361	-	953,361
Total expenses	18,107,170	-	18,107,170
Change in net assets from operations	15,192,911	(394,468)	14,798,443
Nonoperating activities			
Investment return, net	147,460	-	147,460
Total nonoperating activities	147,460	-	147,460
CHANGE IN NET ASSETS	15,340,371	(394,468)	14,945,903
Net assets, beginning of year	1,773,976	424,342	2,198,318
Net assets, end of year	$ 17,114,347	$ 29,874	$ 17,144,221

See notes to financial statements

PRC

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For The Year Ended December 31, 2018

	Program	Management and General	Fundraising	Total
Salaries and wages	$ 10,281,152	$ 1,207,140	$ 501,423	$ 11,989,715
Other employee benefits	2,298,329	220,014	92,081	2,610,424
Payroll taxes	884,080	94,290	37,124	1,015,494
Retirement contributions	267,395	45,030	17,316	329,741
Total personnel	13,730,956	1,566,474	647,944	15,945,374
Occupancy	3,037,746	285,997	230,536	3,554,279
Fee for service	1,112,345	207,028	182,804	1,502,177
Grants and contract	772,753	1,252	-	774,005
Office	344,666	120,979	83,677	549,322
Other personnel	146,147	231,939	-	378,086
Depreciation	122,618	202,454	-	325,072
Insurance	178,125	9,181	3,807	191,113
Travel and meetings	54,221	15,503	81,435	151,159
Advertising and promotion	38,518	(2,028)	109,142	145,632
Miscellaneous	82,035	16,313	-	98,348
Business	-	9,049	-	9,049
Total expenses	$ 19,620,130	$ 2,664,141	$ 1,339,345	$ 23,623,616

PRC

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For The Year Ended December 31, 2017

	Program	Management and General	Fundraising	Total
Salaries and wages	$ 8,114,850	$ 917,213	$ 535,002	$ 9,567,065
Retirement contributions	203,570	27,260	17,288	248,118
Other employee benefits	1,461,965	65,310	46,245	1,573,520
Payroll taxes	630,111	63,532	37,142	730,785
Total personnel	10,410,496	1,073,315	635,677	12,119,488
Occupancy	2,347,274	293,484	73,177	2,713,935
Fee for service	498,058	528,567	27,527	1,054,152
Office	492,345	75,497	65,331	633,173
Grants and contract	560,471	-	-	560,471
Other personnel	160,101	72,410	-	232,511
Advertising and promotion	133,316	14,414	67,301	215,031
Depreciation	10,807	236,036	-	246,843
Insurance	168,532	(423)	2,416	170,525
Travel and meetings	46,921	5,014	81,932	133,867
Miscellaneous	27,174	-	-	27,174
Total expenses	$ 14,855,495	$ 2,298,314	$ 953,361	$ 18,107,170

See notes to financial statements

PRC

CONSOLIDATED STATEMENTS OF CASH FLOWS
For The Year Ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (3,461)	$ 14,945,903
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:		
Depreciation	325,072	246,843
Amortization	191,846	143,885
Realized and unrealized gain (loss) on investments	172,751	(103,890)
Unfavorable accretion of lease obligations	(262,065)	(196,546)
Inherent contribution of acquired net assets	-	(17,132,561)
Changes in operating assets and liabilities		
Restricted cash	(2,306)	(2,344)
Accounts receivable, net	(1,935,230)	(121,345)
Government grants receivable	576,272	(456,071)
Pledges and grants receivable	(72,917)	(21,516)
Prepaid expenses	12,264	29,159
Beneficial interest in trust	-	345,000
Deposits	(482,412)	(3,380)
Accounts payable and accrued expenses	2,296,752	63,163
Accrued compensation	99,829	269,655
Accrued interest	63,796	25,498
Deferred rent	794,408	189,696
Deferred revenue	(239,965)	2,280,542
Net cash provided by operating activities	1,534,634	501,691
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash acquired from business combination	-	2,124,966
Purchases of property and equipment	(3,330,341)	-
Proceeds from sale of investments	441,788	-
Net cash used in (provided by) investing activities	(2,888,553)	2,124,966
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowing (repayments) on line of credit	(410,000)	410,000
Repayments of capital lease obligations	(50,691)	(40,424)
Repayments of long term debt	(32,911)	(11,677)
Net cash (used in) provided by financing activities	(493,602)	357,899
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,847,521)	2,984,556
CASH AND CASH EQUIVALENTS		
Beginning of year	4,242,871	1,258,315
End of year	$ 2,395,350	$ 4,242,871
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	$ 88,639	$ 40,899

See notes to financial statements

PRC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF ACTIVITIES

PRC (the Organization) is a California non-profit public benefit corporation. The Organization whose mission is to assist people affected by or at risk for HIV/AIDS in making informed choices that maximize available benefits through counseling, education and advocacy. During 2018 the Organization changed its name from Positive Resource Center to PRC. The Organization operates the following programs:

Benefits Counseling - Social security representation and benefits counseling services to people living with HIV/AIDS or mental health conditions.

Employment Services - Comprehensive employment preparation and job search assistance to people living with HIV/AIDS or mental health conditions.

Agreements of Affiliation - Effective March 31, 2017, the Organization entered into an Agreement of Affiliation with Baker Places, Inc. ("Baker Places"), a nonprofit corporation. Under this Agreement of Affiliation, the Organization is the sole corporate member of Baker Places, while both parties retain its separate corporate identity. Pursuant to the membership rights granted to the Organization, the Organization appointed directors who will serve as Board of Directors to Baker Places.

Baker Places is a California non-profit corporation providing an array of community-based services to residents of San Francisco with mental health, substance abuse and HIV/AIDS related issues. Baker Places is dedicated to assisting individuals in learning and regaining the skills to live their lives fully and productively in the community. This social rehabilitation approach guides and unifies all of the Baker Places' programs. Services are aimed at being accessible, flexible, consumer-driven and culturally competent.

Effective July 31, 2017, the Organization entered into an Agreement of Affiliation with AIDS Emergency Fund ("AEF"), a nonprofit corporation. Under this Agreement of Affiliation, the Organization is the sole corporate member of AEF, while both parties retain its separate corporate identity. Pursuant to the membership rights granted to the Organization, the Organization appointed directors who will serve as Board of Directors to Baker Places. In October 2017, the Organization dissolved AEF and fully merged AEF into the Organization.

AEF provides critical financial assistance to people living with disabling HIV/AIDS. AEF responds compassionately to the AIDS crisis by providing immediate, short term financial assistance to help people disabled by HIV/AIDS to cover their basic human needs and stabilize their living situations. This short-term financial assistance is a key element of San Francisco's continuum of care, and AEF collaborates with other service providers to insure that clients access all available resources and assistance. Through compassionate intervention by AEF, people living with HIV/AIDS can maintain access to medical care and drug therapies, avoid eviction and homelessness, and live with greater stability and dignity during their illness.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP), which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions - Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Organization's management and board of directors.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net assets with donor restrictions - Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity. Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Measure of operations – The statements of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to Organization's ongoing services. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

Principles of consolidation - The consolidated financial statements include the accounts of the following entities: PRC and Baker Places. All intercompany accounts and transactions have been eliminated in consolidation.

Use of estimates - The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Business combinations - The Company accounts for business combinations under the acquisition method of accounting. Under this method, acquired assets, including separately identifiable intangible assets, and any assumed liabilities are recorded at their acquisition date estimated fair value. The excess of purchase price over the fair value amounts assigned to the assets acquired and liabilities assumed represents the goodwill amount resulting from the acquisition. Determining the fair value of assets acquired and liabilities assumed involves the use of significant estimates and assumptions.

Cash and cash equivalents - The Organization considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash deposits usually exceed the federally insured limits.

Restricted cash - The Organization has certain cash which is restricted to be used only for certain maintenance costs of specific programs.

Investments – Investments are reported at cost, if purchased, or at fair value, if donated. Thereafter, investments are reported at their fair values in the statements of financial position, and changes in fair value are reported as investment return in the statements of activities.

Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of securities are based on average cost and are recorded in the statements of activities in the period in which the securities are sold. Interest is recorded when earned. Dividends are accrued as of the ex-dividend date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment - Purchased land, buildings and equipment are recorded at cost and donated property and equipment are recorded at the fair value at the date of the contribution. The Organization has established a capitalization threshold of $5,000 per item with useful lives greater than one year. Expenditures for major renewals and betterments that extend the useful lives of the property and equipment are capitalized. Maintenance and repairs are charged to operations when incurred. When property and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in operations. Depreciation of property and equipment is determined using the straight-line method over the following estimated useful lives, which ranges from 3 to 20 years.

The Organization reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends, and prospects, as well as the effects of obsolescence, demand, competition, and other economic factors.

Intangible assets - Leases that existed at the date of acquisition with terms that were favorable to market at that date are recorded as intangible assets and amortized on a straight-line basis over the useful lives of the respective leases. The Organization evaluates the residual value of its intangible assets periodically and adjusts the amortization period and/or residual value when the Organization believes the residual value of the asset is not recoverable.

Accounts and grants receivable - The Organization reviews accounts and grants receivable on a monthly basis to determine if any receivables will be uncollectible. The Organization establishes an allowance for doubtful accounts for any balance determined to be uncollectible. At December 31, 2018 and 2017, no allowance for doubtful accounts has been recorded as all amounts were considered collectible.

Revenue recognition - Grant awards are recognized as an increase in net assets without donor restrictions when conditions set forth in the grant instruments are substantially fulfilled. Failure to fulfill the conditions may constitute default and result in termination of grant instruments and return of funds to the grantors.

Contributions - Contributions, including unconditional promises to give, are recognized as revenues in the period the promise is received. Conditional promises to give are not recognized until they become unconditional; that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of contribution. Contributions to be received after one year are discounted at an appropriate rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Contributions and grants without donor restrictions are recorded as an increase in net assets without donor restrictions when received. All contributions are considered to be available for unrestricted use unless specifically restricted by donor.

All donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributed services - Contributed services are reflected in the consolidated financial statements at the fair value of the services received only if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. At December 31, 2018 and 2017, there are no contributed services.

Deferred revenue - Overpayments received from the San Francisco Department of Public Health from fiscal years 2008 through 2010 and 2016 under the Mental Health program are classified as deferred revenue, and decreased annually according to schedule agreed with the agency. In November 2017, the Organization renegotiated the payment terms and payments were deferred to 2018 with full repayment obligation to occur in fiscal year 2022. The Organization also receives annual advanced payments to be applied towards future grant revenues, which are recognized over the grant period.

Advertising – Advertising costs are expensed as incurred.

Functional allocation of expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the program services and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

Expense	Method of Allocation
Personnel	Time and effort
Occupancy	Time and effort
Fee for service	Time and effort
Grants and contract	Time and effort
Other personnel	Time and effort
Advertising and promotion	Time and effort
Depreciation	Time and effort
Insurance	Time and effort
Travel and meetings	Time and effort
Miscellaneous	Time and effort

Income taxes - The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from California franchise taxes under Section 23701d of the Revenue and Taxation Act. Accordingly, no provision has been made for federal or state income taxes.

The Organization has analyzed tax positions taken for filings with the Internal Revenue Service and all state jurisdictions where it operates. The Organization believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse affect on the Organization's financial position, results of activities or cash flows. Accordingly, the Organization has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at December 31, 2018 and 2017.

With few exceptions, the Organization is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for the years before 2014.

The Organization's policy is to classify income tax related interest and penalties in interest expense and other expenses, respectively. The Organization has not recognized any interest and penalties in the year ended December 31, 2018 and 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncement – In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity also should disclose sufficient quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The new standard is effective for fiscal years beginning after December 15, 2018. The Organization has not yet completed its assessment of the impact of the new standard on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). ASU 2016-02 requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under ASC Topic 840. Under the guidance of ASU 2016-02, a lessee should recognize in the balance sheet a liability to make lease payments (lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The ASU is effective for fiscal years beginning after December 15, 2020. The Organization has not yet completed its assessment of the impact of the new standard on its consolidated financial statements.

Reclassifications – Certain prior year amounts have been reclassified to conform to the current year presentation.

3. AVAILABILITY AND LIQUIDITY

The following represents Organization's financial assets at December 31:

Financial assets at year end:	2018	2017
Cash and cash equivalents	$ 2,395,350	$ 4,242,871
Cash held by others	9,200	12,560
Accounts receivable	3,408,304	1,473,074
Government grant receivable	455,479	1,031,751
Pledges and grants receivable	137,543	64,626
Investments	1,621,596	2,236,135
	8,027,472	9,061,017
Less amounts not available to be used within one year		
Board-designated with liquidity horizons greater than one year	(522,872)	(1,202,075)
Financial assets available to meet general expenditures within one year	$ 7,504,600	$ 7,858,942

3. AVAILABILITY AND LIQUIDITY (CONTINUED)

The Organization's goal is generally to maintain financial assets to meet 90 days of operating expenses (approximately $5.9 million). As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts. The Organization has a $275,000 line of credit available to meet cash flow needs.

4. AFFILIATION AGREEMENTS

As discussed in Note 1, the Organization entered into an affiliation agreement with AIDS Emergency Fund (AEF), a California nonprofit public benefit corporation, to become the sole corporate member of AEF and appoint individuals of the Organization's choice to serve as directors of AEF. In October 2017, the Organization dissolved AEF and fully merged AEF into the Organization.

The following table summarizes the fair value allocation of the assets acquired and liabilities assumed at the acquisition date for AEF.

Assets acquired:	
Cash and equivalents	$ 716,370
Accounts receivable	210,583
Prepaid expenses	1,469
Investments	2,132,245
Deposit	9,725
Total assets acquired	3,070,392
Liabilities assumed:	
Accrued compensation	20,465
Total liabilities assumed	20,465
Net assets acquired	$ 3,049,927

As a result the acquisition, the Organization recognized a contribution of $3,049,927 for the year ended December 31, 2017.

As discussed in Note 1, the Organization entered into an affiliation agreement with Baker Places, Inc. (Baker Places), a California nonprofit public benefit corporation, to become the sole corporate member of Baker Places and appoint individuals of the Organization's choice to serve as directors of Baker Places.

4. AFFILIATION AGREEMENTS (CONTINUED)

The following table summarizes the fair value allocation of the assets acquired and liabilities assumed at the acquisition date for Baker Places.

Assets acquired:	
Cash and equivalents	$ 1,408,596
Restricted cash	43,457
Accounts and grants receivable, net	1,016,618
Prepaid expenses	295,699
Land, buildings, and equipment	15,849,505
Intangibles	951,208
Deposit	71,280
Total assets acquired	19,636,363
Liabilities assumed:	
Accounts payable and accrued expenses	88,261
Accrued compensation	358,519
Security deposits	39,279
Deferred revenue	1,487,548
Unfavorable lease liability	655,162
Accrued interest	721,571
Capital leases	144,018
Long-term debt	2,624,861
Debt discount	(565,490)
Total liabilities assumed	5,553,729
Net assets acquired	$ 14,082,634

As a result the acquisition, the Organization recognized a contribution of $14,082,634 for the year ended December 31, 2017.

The fair value of the land and buildings is estimated using third party appraisals. The Organization recorded certain favorable and unfavorable leasehold interest as a result of the acquisition. The fair value of favorable leasehold interest is determined using the income approach, whereby the difference between contractual rent and market rent is calculated for each remaining term for each lease, and then discounted to present value. All leasehold interests are being amortized based upon patterns in which the economic benefits or obligations are expected to be realized. Accordingly, the favorable and unfavorable leasehold interests are being amortized over the respective lease terms of the properties.

The following are the favorable and unfavorable leasehold interests and their respective weighted average useful lives:

	Fair Value at Acquisition	Weighted Average Useful Life
Leasehold interests		
Favorable	951,208	8.4 Years
Unfavorable	(728,169)	2.5 Years
Net non-market leasehold interests	$ 223,039	

5. INVESTMENTS AND FAIR VALUE MEASUREMENT

Investments are comprised of the following at December 31:

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Exchange-traded funds	$ 322,683	$ 392,051	$ 404,383	$ 540,136
Mutual funds	1,282,289	1,159,978	1,573,544	1,604,121
Cash	69,567	69,567	91,878	91,878
Total	$ 1,674,539	$ 1,621,596	$ 2,069,805	$ 2,236,135

The following table summarizes the total investment income, and net realized and unrealized gains and losses for the year ended December 31:

	2018	2017
Dividends and interest income	$ 67,960	$ 43,570
Net realized gain	34,705	-
Net change in unrealized gain (loss) on investments reported at fair value	(221,046)	107,019
	(118,381)	150,589
Investment expenses	(13,657)	(3,129)
Total gain on investments	$ (132,038)	$ 147,460

The Organization reports its investments at fair value as described in ASC Topic 820, *Fair Value Measurements*, which establishes a single authoritative definition of fair value, sets out a framework of measuring fair value, and requires additional disclosure about fair value measurement of assets such as investments.

This standard establishes a framework for measuring fair value for the investments held by the Organization. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under this standard are described below:

Level 1: Inputs to the valuation methodology represent unadjusted quoted prices for identical assets or liabilities in active markets that the Institute has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

5. INVESTMENTS AND FAIR VALUE MEASUREMENT (CONTINUED)

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The investments in mutual funds are valued at net asset value (NAV) of shares, based on quoted market prices, held by the Institute at year-end. Common stocks are valued at the closing price reported in the active market in which the individual securities are traded. Money market funds are valued at cost, which approximates fair value.

The following tables sets forth by level, within the fair value hierarchy, the Institute's assets at fair value as of December 31.

	2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Exchange-traded funds	$ 392,051	$ -	$ -	$ 392,051
Mutual funds	1,159,978	-	-	1,159,978
Cash	69,567	-	-	69,567
Total investments	$ 1,621,596	$ -	$ -	$ 1,621,596

	2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Exchange-trade funds	$ 540,136	$ -	$ -	$ 540,136
Mutual funds	1,604,121	-	-	1,604,121
Cash	91,878	-	-	91,878
Total investments	$ 2,236,135	$ -	$ -	$ 2,236,135

There have been no changes in the methodologies used at December 31, 2018 and 2017.

6. LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of the following at December 31:

	2018	2017
Land	$ 5,876,903	$ 5,876,903
Buildings and improvements	9,776,597	9,763,097
Leasehold improvements	3,368,163	51,322
Office equipment and furniture	54,473	54,473
Capital leases	136,012	136,012
	19,212,148	15,881,807
Accumulated depreciation	(604,217)	(279,145)
	$ 18,607,931	$ 15,602,662

7. INTANGIBLES

The Organization's intangible assets consist of the following at December 31:

	2018		2017	
	Amount	Remaining Weighted Average Amortization	Amount	Remaining Weighted Average Amortization
Favorable leases	$ 951,208	6.7 Years	$ 951,208	7.7 Years
Accumulated amortization	(335,731)		(143,885)	
	$ 615,477		$ 807,323	

8. LINE OF CREDIT

The Organization has a secured line of credit with Wells Fargo in the amount of $275,000 (modified in 2018 from $550,000) to be drawn down upon as needed, at the greater of a floating rate equal to the Prime rate plus 1% or the Floor Rate of 5% (5.50% at December 31, 2018 and 2017). As of December 31, 2018 and 2017 there is an outstanding balance of $0 and $410,000, respectively.

9. LONG TERM DEBT

Long term debt consists of the following as of December 31:

	2018	2017
Mortgage Debt		
Note payable to Wells Fargo Bank collateralized by a first deed of trust on building and land and is payable in monthly installments including interest at a rate of 4.75%, through May 15, 2023.	$ 346,085	$ 356,698
Note payable to Wells Fargo Bank collateralized by a first deed of trust on building and land and is payable in monthly installments including interest at a rate of 4.75%, through May 15, 2023.	564,120	581,418
Notes to Government Agencies		
Note payable to California Department of Housing and Community Development for funds provided by the State Special User Housing Rehabilitation Program. This note is collateralized by a deed of trust on building and land and accrues simple interest at 3% per annum. Principal and all accrued interest are due December 23, 2021.	175,000	175,000
Note payable to City and County of San Francisco is collateralized by a deed of trust on building and land. The note is payable with surplus cash generated by project annually and accrues simple interest at 3% per annum. Principal and all accrued interest are due December 28, 2055.	284,618	284,618
Note payable to San Francisco Mayor's Office of Housing and Community Development is collateralized by a deed of trust and assignment of rents. The note is payable with surplus cash generated by project annually and accrues simple interest at 3% per annum. Principal and all accrued interest are due February 28, 2051.	1,082,209	$ 1,082,209
Note payable to San Francisco Mayor's Office of Housing and Community Development is collateralized by a deed of trust on building and land and accrues simple interest at 10% per annum. Interest is deferred until the end of term of the note and provided no default has occurred, accrued interest will be forgiven. Forgiveness conditions require the Organization to operate the property for the benefit of qualifying low-income residents. Principal is payable in annual installments. The note matures on November 18, 2041.	115,000	120,000
Debt Discount	(534,594)	(552,249)
Total debt	2,032,438	2,047,694
Less: current portion	(34,976)	(33,588)
Long-term debt, net of current portion	$ 1,997,462	$ 2,014,106

9. LONG TERM DEBT (CONTINUED)

The Organization estimated the fair value of debt of Baker Places using the discounted cash flow approach using the Organization's borrowing rate at the debt of acquisition. The $2,654,033 of total debt was valued at $2,088,543, generating a debt discount of $565,490 for the year ended December 31, 2017.

Maturities of long term debt at December 31, 2018 are as follows:

2019	$ 34,976
2020	36,431
2021	37,957
2022	39,557
2023	786,284
Thereafter	1,631,827
	$ 2,567,032

10. CAPITAL LEASES

The Organization leases various copiers and computers, which provide for either title to pass to the Organization upon expiration of the lease period, or for which present value of future minimum lease payments exceed fair value of the equipment. The cost of equipment capitalized under capital leases is $136,012 at December 31, 2018. The accumulated depreciation of equipment under capital leases at December 31, 2018 is $90,577 .

Capital lease obligations consisted of the following as of December 31:

	2018	2017
Capital lease for copiers for the Organization's program office locations in monthly installments of $3,570 through March 2020.	$ 53,697	$ 95,753
Capital lease for computers payable in monthly installments of $1,488 through November 2019.	-	12,902
Capital lease obligations	53,697	108,655
Amounts representing interest	(794)	(5,061)
Present value of minimum lease payments	52,903	103,594
Current portion	(41,136)	(51,564)
Capital lease obligations, net of current portion	$ 11,767	$ 52,030

The future annual minimum lease payments required under the capital leases as of December 31, 2018, are as follow:

2019	$ 42,840
2020	10,710
Amounts representing interest	(647)
	$ 52,903

11. UNEMPLOYMENT TRUST

The Organization has opted out of the state unemployment tax system, and instead participates in an unemployment trust. As of December 31, 2018 and 2017, the Organization's trust account and unemployment liability provision has a balance of $9,200 and $12,560, respectively.

12. NET ASSETS

Net assets with donor restrictions at December 31 are as follows:

Specific Purpose	2018	2017
Employment services	$ -	$ 17,374
Benefits counseling	-	12,500
	$ -	$ 29,874

Net assets without donor restrictions at December 31 are as follows:

	2018	2017
Undesignated	$ 16,617,888	$ 15,912,272
Board designated for operating reserve	522,872	1,202,075
	$ 17,140,760	$ 17,114,347

Net assets released from net assets with donor restrictions for the years ended December 31 are as follows:

Satisfaction of Purpose Restrictions	2018	2017
Employment services	$ 199,374	$ 80,500
Benefits Counseling	182,673	132,288
Total Satisfaction of Purpose Restrictions	382,047	212,788
Satisfaction of Time Restrictions	-	345,000
	$ 382,047	$ 557,788

13. PENSION PLAN

The Organization has a 403(b) defined contribution plan for all employees who have completed six months of services. The Organization elects to make matching contributions up to 5% of the employee's monthly salary. The amounts contributed by the Organization are $127,762 and $96,331 for the years ended December 31, 2018 and 2017, respectively.

13. PENSION PLAN (CONTINUED)

Baker Places maintains a 403(b) defined contribution plan for all employees who have completed six months of service. Baker Places is required to contribute annually to the plan at a specified rate of each participant's annual salary and years of service. Participants with service of six months to three years receive an employer contribution of 1% of their salary. Participants with service of greater than three years of service receive an employer contribution of 4% of their salary. Total pension plan expenses for the years ended December 31, 2018 and 2017 are $201,979 and $151,786, respectively.

14. COMMITMENTS

In 2018, the Organization entered into a lease agreement to rent 26,454 square feet of office space for ten years. The lease expires January 2029 with options to extend for two additional periods of five years each at prevailing market rates and includes a one-time option to purchase the property. The option to purchase the property may only be exercised after six years and the sale of the property must be closed within a twelve month window period which shall end no later than the last day of the eighty-fourth month from the commencement date of the lease. The exercise price of the option is $21,000,000. The lease includes tenant improvement allowance of $1,719,543.

The Organization leases space for its administrative offices and short-term housing of clients as well as certain personal property. Rent expense for these leases, which generally have escalating rentals over the term of the lease, is recorded on a straight-line basis over the lease term. The difference between the rent expense and rent paid is recorded as deferred rent on the consolidated balance sheet. Tenant incentives used to fund leasehold improvements are recorded in deferred rent and amortized as reductions of rent expense over the term of the lease.

Rent expense for the years ended December 31, 2018 and 2017 relating to long-term lease agreements are $1,784,811 and $1,589,609, respectively.

Minimum future rental payments under the non-cancelable operating leases with lease terms greater than one year are as follows:

2019	$ 1,664,577
2020	1,633,884
2021	1,602,657
2022	1,612,769
2023	1,664,425
Thereafter	12,758,495
	$ 20,936,807

15. CONTINGENCIES

Forgivable Debt - Baker Places has received forgivable loans from the San Francisco Mayor's Office of Housing and Community Development and the California Department of Housing and Community Development. The loans are forgiven at the end of the their respective terms provided that Baker Places continues to provide services to persons with AIDS and affordable housing to low income individuals. If Baker Places were to stop providing these services, they would be in default on the loans which would become due and payable subject to 10% compounded interest from the date of disbursement. These loans, in the amount of $2,059,835, are recorded as contributions in the year they were received as the likelihood that Baker Places will not continue to provide these services is remote. The accrued interest on these loans as of December 31, 2018 and 2017, are $304,500 and $294,000, respectively, which has not been recorded.

16. CONCENTRATIONS

The Organization receives a portion of its support and revenue from federal, state and city governments. Certain awards for which the Organization receives reimbursements are subject to audit and final acceptance by granting agencies. Current and prior year costs of such grants are subject to adjustment upon audit. The amount of expenditures that may be disallowed by the grantor, if any, cannot be determined at this time, although management believes they would not be material.

17. SUBSEQUENT EVENTS

In April 2019, the Organization entered into a $1,900,000 loan and security agreement with Northern California Community Loan Fund, a non-profit benefit corporation, to finance leasehold improvements for its offices. The note bears interest at 5.75% and is scheduled to mature on April 15, 2023. See Note 14 Commitments for further information on the office lease agreement.

The Organization's management has reviewed the results of operations for the period of time from its year ended December 31, 2018 through May 31, 2019, the date these financial statements were available to be issued, and has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor have any subsequent events occurred, the nature of which would require disclosure, other than the item disclosed below.

SUPPLEMENTAL INFORMATION

PRC

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2018

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Grant Period	Federal CFDA Number	Pass-through Entity Identifying Number	Passed Through to Sub-recipients	Federal Expenditures
Department of Health and Human Services					
Direct Programs:					
Health Resources & Services Administration	9/30/17-9/30/20	93.928	H97HA31434	-	317,769
Total Direct Programs				-	317,769
Pass-through the San Francisco Department of Public Health:					
HIV Emergency Relief Project Grants	3/1/17-2/28/18	93.914	BPHM14000007	-	131,217
HIV Emergency Relief Project Grants	3/1/18-6/30/18	93.914	BPHM14000007	-	182,528
HIV Emergency Relief Project Grants	3/1/17-2/28/18	93.914	BPHM14000007	-	282,951
HIV Emergency Relief Project Grants	3/1/17-2/28/18	93.914	DPHC16000456-02	-	67,465
HIV Emergency Relief Project Grants	10/1/17-2/28/18	93.914	DPHC16000456-02	-	137,776
HIV Emergency Relief Project Grants	3/1/18-2/28/19	93.914	DPHC16000456-02	-	951,391
HIV Emergency Relief Project Grants	10/1/18-2/28/19	93.914	DPHC16000456-02	-	81,526
				-	1,834,854
Department of Housing and Urban Development					
Pass-through the City and County of San Francisco:					
Community Development Block Grants/Entitlement Grants	7/1/17-6/30/18	14.218	B16MC060016	-	57,319
Community Development Block Grants/Entitlement Grants	7/1/18-6/30/19	14.218	B17MC060016	-	60,901
Community Development Block Grants/Entitlement Grants	7/1/17-6/30/18	14.218	B15MC060016	-	24,789
Community Development Block Grants/Entitlement Grants	7/1/18-6/30/19	14.218	B16MC060016	-	25,243
Community Development Block Grants/Entitlement Grants	7/1/17-6/30/18	14.218	B17MC060016	-	25,285
Community Development Block Grants/Entitlement Grants	7/1/18-6/30/19	14.218	B16MC060016	-	24,857
Total Department of Housing and Urban Development				-	218,394
Department of Education					
Pass-through the San Francisco Department of Public Health:					
State Vocational Rehabilitation Services	7/1/17-6/30/18	84.126A	29859	-	44,253
State Vocational Rehabilitation Services	7/1/18-6/30/19	84.126A	29859	-	48,826
Total Department of Education				-	93,079
Total expenditures of federal awards				$ -	$ 2,464,096

PRC
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2018

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of PRC under programs of the federal government for the year ended December 31, 2018. The information in this Schedule is presented in accordance with the 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). Because the Schedule presents only a selected portion of the operations of PRC, it is not intended to and does not present the financial position, changes in net assets, or cash flows of PRC.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - 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.

Indirect costs - PRC has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance. Indirect costs are charged to the federal award programs as specified in the grant agreements.

OTHER REPORTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
PRC

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 PRC (the Organization), which comprise the consolidated statement of financial position as of December 31, 2018, 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 May 31, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered PRC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PRC's internal control. Accordingly, we do not express an opinion on the effectiveness of the PRC'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 entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PRC’s consolidated financial statements are free of 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 determination of financial statement amounts. 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*.

1550 Parkside Drive, Suite 260, Walnut Creek, CA 94596
www.bhlfcpa.com

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.

BHLF LLP

Walnut Creek, California
May 31, 2019

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
PRC

Report on Compliance for Each Major Federal Program

We have audited PRC's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of PRC's major federal programs for the year ended December 31, 2018. PRC's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of PRC’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about PRC’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of PRC’s compliance.

Opinion on Each Major Federal Program

In our opinion, PRC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

1550 Parkside Drive, Suite 260, Walnut Creek, CA 94596
www.bhlfcpa.com

Report on Internal Control Over Compliance

Management of PRC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered PRC's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of PRC's 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 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

BHLF LLP

Walnut Creek, California
May 31, 2019

PRC

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended December 31, 2018

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weaknesses identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	None reported
• Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
• Material weaknesses identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a):	No

Identification of Major Programs:

CFDA Numbers	**Name of Federal Program or Cluster**
93.914	HIV Emergency Relief Project Grant

Dollar threshold used to distinguish between Type A and Type B programs:	$750,000
Auditee qualified as low-risk auditee?	Yes

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

PRC

SCHEDULE OF PRIOR YEAR FINDINGS
For The Year Ended December 31, 2017

No matters were reported.