PRC

Independent Auditor's Report
and Consolidated Financial Statements

For the Six Months Ended June 30, 2019

PRC

Six Months Ended June 30, 2019

Table of Contents

BHLF LLP

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 statement of financial position as of June 30, 2019, and the related consolidated statement of activities, functional expenses, and cash flows for the six months period 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 audit. We conducted our audit 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 June 30, 2019 and the changes in its net assets and its cash flows for the six months period 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

Substantial Doubt about the Organization's Ability to Continue as a Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Organization will continue as a going concern. As discussed in Note 15 to the consolidated financial statements, the Organization significant operating loss and negative cash flow from operations raise substantial doubt about its ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding those matters are also described in Note 15. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

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 April 28, 2020, 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
April 28, 2020

PRC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2019

ASSETS

Current assets:	
Cash and cash equivalents	$ 839,508
Accounts receivable, net	2,101,096
Government grants receivable	388,028
Pledges and grants receivable	393,654
Prepaid expenses	140,399
Restricted cash	48,958
Total current assets	3,911,643
Investments	237,709
Property and equipment, net	21,842,095
Intangibles, net	200,980
Deposits	439,815
Total assets	$ 26,632,242

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable and accrued expenses	$ 528,173
Accrued compensation	898,200
Deferred revenue	246,123
Current portion of capital leases	117,588
Current portion of long-term debt	133,240
Line of credit	250,000
Total current liabilities	2,173,324
Accrued interest	816,452
Deferred revenue, net of current portion	1,512,490
Deferred rent	2,277,680
Capital leases, net of current portion	227,515
Long-term debt, net of current	3,656,699
Other	65,516
Total liabilities	10,729,676
Net assets	
Without donor restrictions	15,667,566
With donor restrictions	235,000
Total net assets	15,902,566
Total liabilities and net assets	$ 26,632,242

See notes to financial statements

PRC

CONSOLIDATED STATEMENT OF ACTIVITIES
For the Six Months Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING ACTIVITIES			
REVENUE AND SUPPORT			
Government awards	$ 10,824,494	$ -	$ 10,824,494
Program fees	472,174	-	472,174
Foundation and corporate grants	350,000	235,000	585,000
Contributions	325,150	-	325,150
Fundraising event, net	153,450	-	153,450
Client rent	192,210	-	192,210
Other	155,108	-	155,108
Net assets released from restrictions	-	-	-
Total revenue and support	12,472,586	235,000	12,707,586
EXPENSES			
Program	11,316,359	-	11,316,359
Management and general	1,992,892	-	1,992,892
Fundraising	723,373	-	723,373
Total expenses	14,032,624	-	14,032,624
Change in net assets from operations	(1,560,038)	235,000	(1,325,038)
NONOPERATING ACTIVITIES			
Investment income, net	86,844	-	86,844
Total nonoperating activities	86,844	-	86,844
CHANGE IN NET ASSETS	(1,473,194)	235,000	(1,238,194)
Net assets, beginning of period	17,140,760	-	17,140,760
Net assets, end of period	$ 15,667,566	$ 235,000	$ 15,902,566

See notes to financial statements

PRC

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For The Six Months Ended June 30, 2019

	Program	Management and General	Fundraising	Total
Salaries and benefits	$ 7,304,827	$ 731,540	$ 329,683	$ 8,366,050
Occupancy	2,232,389	546,035	144,600	2,923,024
Grants and contract	920,546	341	-	920,887
Other personnel	186,940	175,101	-	362,041
Depreciation	246,974	84,313	25,357	356,644
Office	191,094	100,642	33,937	325,673
Insurance	93,266	9,289	3,325	105,880
Travel and meetings	30,834	3,390	10,185	44,409
Fee for service	36,245	325,682	91,963	453,890
Advertising and promotion	20,733	87	84,323	105,143
Miscellaneous	52,511	7,813	-	60,324
Business	-	8,659	-	8,659
Total expenses	11,316,359	$ 1,992,892	$ 723,373	$ 14,032,624

See notes to financial statements

PRC

CONSOLIDATED STATEMENT OF CASH FLOWS
For The Six Months Ended June 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ (1,238,194)
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:	
Depreciation	356,645
Amortization	414,497
Realized and unrealized gain (loss) on investments	(77,715)
Unfavorable accretion of lease obligations	(131,032)
Changes in operating assets and liabilities	
Restricted cash	1,341
Accounts receivable, net	1,307,208
Government grants receivable	67,451
Pledges and grants receivable	(256,111)
Prepaid expenses	125,055
Deposits	152,485
Accounts payable and accrued expenses	(2,051,759)
Accrued compensation	56,602
Accrued interest	31,954
Deferred rent	1,293,576
Deferred revenue	(1,769,512)
Net cash used in operating activities	(1,717,509)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of property and equipment	(3,249,452)
Proceeds from sale of investments	1,461,602
Net cash used in investing activities	(1,787,850)
CASH FLOWS FROM FINANCING ACTIVITIES	
Borrowing on line of credit	250,000
Repayments of capital lease obligations	(49,157)
Proceeds from long term debt, net of loan origination costs	1,763,200
Repayments of long term debt	(14,526)
Net cash provided by financing activities	1,949,517
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,555,842)
CASH AND CASH EQUIVALENTS	
Beginning of period	2,395,350
End of period	$ 839,508
SUPPLEMENTAL CASH FLOW INFORMATION	
Cash paid for interest	$ 48,033
NON-CASH INVESTING AND FINANCING ACTIVITIES	
Equipment acquired under capital leases	$ 341,357

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. In 2019, the Organization changed its year end to June 30 from December 31. The Organization operates the following programs:

Emergency Financial Assistance: Emergency financial grants for basic human needs reaching 2,000 low-income, HIV+ adults annually.

Legal Advocacy: Legal representation and advocacy for disability benefits and health care access engaging 1,800 adults experiencing homelessness and/or issues related to mental health or HIV/AIDS.

Workforce Development: Accredited job training pathways and employment readiness, placement, and counseling services for 650 low income, health-challenged adults annually.

Housing Planning Program: Need assessments, housing-focused case management, referrals, and support accessing needed social services for 100 low income adults.

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.

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Principles of consolidation - 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. 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.

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 June 30, 2019, no allowance for doubtful accounts has been recorded as all amounts were considered collectible.

Deferred rent - At the inception of certain lease agreements, the Organization received rent concessions in the form of free rent and tenant improvement allowances. The lease concessions are captured as deferred rent liabilities and are amortized on a straight line basis over the terms of the leases. At June 30, 2019, the remaining deferred rent liability is $2,277,680.

Revenue recognition - Grant awards are recognized as an increase in net assets without donor restrictions when conditions or service obligations as 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, 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.

Program fees consist of client fees and rent related to the residential treatment programs. Service obligations are satisfied as the program services or room and board are provided.

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 June 30, 2019, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 June 30, 2019.

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 2015.

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 for the six months period ended June 30, 2019.

New Accounting Pronouncement – In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 and interim periods within annual reporting periods beginning after December 15, 2019. The Organization is currently evaluating the mpact of adoption of the new standard on the 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (A Consensus of the FASB Emerging Issues Task Force)*. The amendments in this ASU require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this ASU do not provide a definition of restricted cash or restricted cash equivalents. The ASU will be effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Earlier adoption is permitted. The Organization does not believe the adoption of the new standard will have a significant impact on the financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies the guidance presented in Topic 958, Not-for-Profit Entities, of the FASB's ASC for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. The ASU is effective for resource recipients in annual periods beginning after June 15, 2018. The Organization adopted the guidance in this standard for the six month ended June 30, 2019, using the modified prospective basis. The amendments in this update were applied only to the portion of revenue not yet recognized before the effective date and did not have a material impact on the consolidated financial statements.

3. AVAILABILITY AND LIQUIDITY

The following represents Organization's financial assets at June 30, 2019.

Financial assets at year end:	
Cash and cash equivalents	$ 839,508
Accounts receivable	2,101,096
Government grant receivable	388,028
Pledges and grants receivable	393,654
Investments	237,709
	3,959,995
Less amounts not available to be used within one year:	
Net asset with donor restrictions	(235,000)
Financial assets available to meet general expenditures within one year	$ 3,724,995

The Organization's goal is generally to maintain financial assets to meet 60 days of operating expenses (approximately $4.5 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 and a $350,000 line of credit available to meet cash flow needs.

4. INVESTMENTS AND FAIR VALUE MEASUREMENT

Investments are comprised of the following at June 30, 2019.

	Cost	Fair Value
Exchange-traded funds	$ 45,961	$ 59,959
Mutual funds	167,776	168,707
Cash	9,043	9,043
Total	$ 222,780	$ 237,709

The following table summarizes the total investment income, and net realized and unrealized gains and losses for the six months period ended June 30, 2019.

Dividends and interest income	$ 11,728
Net realized gain	9,842
Net change in unrealized gain (loss) on investments reported at fair value	67,873
	89,443
Investment expenses	(2,599)
Total gain on investments	$ 86,844

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:

<u>Level 1</u>: 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.

<u>Level 2</u>: 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.

4. 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 June 30, 2019.

	Level 1	Level 2	Level 3	Total
Exchange-traded funds	$ 59,959	$ -	$ -	$ 59,959
Mutual funds	168,707	-	-	168,707
Cash	9,043	-	-	9,043
Total investments	$ 237,709	$ -	$ -	$ 237,709

There have been no changes in the methodologies used at June 30, 2019.

5. LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of the following at June 30, 2019.

Land	$ 5,876,903
Buildings and improvements	9,808,522
Leasehold improvements	6,549,266
Office equipment and furniture	399,952
Capital leases	136,012
	22,770,655
Accumulated depreciation	(928,560)
	$ 21,842,095

6. INTANGIBLES

The Organization's intangible assets consist of the following at June 30, 2019.

	Amount	Remaining Weighted Average Amortization
Favorable leases	$ 951,208	20.58 Years
Accumulated amortization	(750,228)	
	$ 200,980	

7. LINE OF CREDIT

The Organization has a secured line of credit with Wells Fargo in the amount of $275,000 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% (6.50% at June 30, 2019). As of June 30, 2019, the outstanding balance is $250,000. The line of credit matured on March 10, 2020 and the Organization is currently in default.

Baker Places has a secured revolving line of credit in the amount of $350,000 with Northern California Community Loan Fund which matured on January 25, 2020. The interest rate was 6.0% at June 30, 2019. The Organization did not borrow against the line of credit during the six month period ended June 30, 2019 .

8. LONG TERM DEBT

Long term debt consists of the following as of June 30, 2019.

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 of $2,297, which includes interest at a rate of 4.75%, through April 2023. Remaing principal balance is due May 2023.	$ 340,562
Note payable to Wells Fargo Bank collateralized by a first deed of trust on building and land and is payable in monthly installments of $3,743, which includes interest at a rate of 4.75%, through April 2023. Remaining principal balance is due May 2023.	555,117
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 2021.	175,000

8. LONG TERM DEBT (CONTINUED)

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 2055.	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 2051.	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 2041.	115,000
Other Notes Payable	
Note payable to Northern California Community Loan Fund, a non-profit benefit corporation, to finance leasehold improvements for the Organization's offices. Under the note payable agreement, the Organization can draw up to $1,900,000 during the draw period as defined in the agreement (see Note 17. Subsequent Events). The note is collateralized by a deed of trust on building and land and accrues interest at 5.75% per annum. Interest only payments are required to be made for the first six months on the then outstanding loan amount. Thereafter, principal and interest are payable in monthly installments of $20,865. In addition, after 18 and 36 months, at least 20% of the outstanding loan balances are required to be repaid. The note matures on April 2023, upon which any remaining unpaid loan amount and accrued interest will be due.	1,804,795
Unamortized Debt Discount	(525,767)
Unamortized Debt Issuance Costs	(41,595)
Total debt	3,789,939
Less: current portion	(133,240)
Long-term debt, net of current portion	$ 3,656,699

Debt Discount - At the date of Baker Places' acquisition in 2017, the Organization estimated the fair value of debt of Baker Places using the discounted cash flow approach and the Organization's borrowing rate. At the date of acquisition, the $2,654,033 of total debt was valued at $2,088,543, generating a debt discount of $565,490. At June 30, 2019, the total unamortized debt discount is $525,767.

8. LONG TERM DEBT (CONTINUED)

Debt Issuance Cost - Costs incurred in connection with obtaining financing are deferred and captured as a direct reduction to the financing arrangement they relate to. During the six months period ended June 30, 2019, the Organization incurred debt issuance cost of $44,308, which are amortized over the life of the note payable. For the six months period ended June 30, 2019, the total amortization expense of $2,713 were captured as interest expense on the accompanying statement of activities.

The Organization's debt agreement with Northern California Community Loan Fund contains certain convenants that require among other things financial statements to be provided no later than 120 days after the end of the year. The Organization was not in compliance with providing financial statements within 120 days of year end. The bank has extended a waiver.

The Wells Fargo notes are subject to various terms, covenants, and conditions including maintenance of certain financial ratios. The Organization was not in compliance with the financial covenants. The bank extended a waiver at June 30, 2019.

Maturities of long term debt at June 30, 2019, are as follows:

2020	$ 133,240
2021	525,732
2022	425,569
2023	871,568
2024	5,000
Thereafter	2,396,192
	$ 4,357,301

9. 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 $477,369 at June 30, 2019. The accumulated depreciation of equipment under capital leases at June 30, 2019 is $148,995 .

Capital lease obligations consisted of the following as of June 30, 2019.

Capital lease for copiers for the Organization's program office locations in monthly installments of $3,570 through March 2020.	$ 28,936
Capital lease for copiers for the Organization's administrative office location payable in monthly installments of $2,679 through May 2024.	158,036
Capital lease for computers payable in monthly installments of $7,221 through February 2022.	231,075
Capital lease obligations	418,047
Amounts representing interest	(72,944)
Present value of minimum lease payments	345,103
Current portion	(117,588)
Capital lease obligations, net of current portion	$ 227,515

9. CAPITAL LEASES (CONTINUED)

The future annual minimum lease payments required under the capital leases as of June 30, 2019, are as follow.

2020	$	147,732
2021		118,796
2022		89,912
2023		32,143
2024		29,464
Amounts representing interest		(72,944)
	$	345,103

10. NET ASSETS

Net assets with donor restrictions at June 30, 2019, are as follows.

Nature of Restriction		
Employment services	$	35,000
Time restriction		200,000
	$	235,000

There are no net assets with donor restrictions that are released from restrictions for the six months ended June 30, 2019.

11. 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 amount contributed by the Organization are $51,705 for the six months period ended June 30, 2019.

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 six months period ended June 30, 2019, are $98,581.

12. 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 allowances of $1,825,363, which are recorded as deferred rent liabilities on the accompanying consolidated statement of financial position, and are amortized over the term of the lease as a reduction to rent expense.

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 six months period ended June 30, 2019, relating to long-term lease agreements is $1,582,871.

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

2020	$ 1,647,079
2021	1,538,437
2022	1,587,520
2023	1,638,545
2024	1,691,348
Thereafter	11,901,516
	$ 20,004,445

13. 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 June 30, 2019, are $309,750, which has not been recorded.

In the normal course of business, the Organization may become involved in various legal proceedings. Baker Places is a defendant in a wrongful termination of employment lawsuit. Baker Places is contesting the claim and believes it will prevail on the merits, however, the litigation could have a lengthy process, and the ultimate outcome cannot be predicted. As a result, no liability has been recorded.

14. 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.

15. GOING CONCERN

The Organization's financial statements are presented on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Organization incurred a large net loss and negative cash flow from operations for the six months ended June 30, 2019 and has incurred additional losses subsequent to year end. These matters raise substantial doubt about the Organization ability to continue as a going concern.

Continuation of the Organization as a going concern is dependent upon management's ability to raise revenues through government grants and private donations and reduce expenses. The management of the Organization has developed a plan which it believes will accomplish these objectives and which will enable the Organization to continue operations for the coming year. However, there is no assurance that these objectives will be met. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might result from the outcome of this uncertainty.

16. SUBSEQUENT EVENTS

In October 2019, Baker Places entered into an approximately $2,400,000 purchase agreement to acquire the real estate property of one of its currently leased residential treatment facilities. In January 2020, in connection with the acquisition and planned renovation of the real estate facility, Baker Places also entered into a 30 year $3,940,000 loan agreement with the City and County of San Francisco, via the Mayor's Office of Housing and Community Development (MOHCD).

In December 2019, the Organization drew the remaining $95,204 available under the $1,900,000 note payable agreement with Northern California Community Loan Fund. See Note 9. Long Term Debt for further information.

In December 2019, the Organization entered into a collaborative letter of understanding with the Aids Walk San Francisco Foundation, a 501(c)(3) organization, which is the governing body of AIDS Walk San Francisco. Within the collaborative letter of understanding, PRC accepted the position of Lead Beneficiary of Aids Walk San Francisco (AWSF) in 2020. As Lead Beneficiary, PRC agreed to employ specific AWSF specific fundraising staff for an estimated budgeted cost of approximately $123,000. In turn, PRC will be a beneficiary of some net proceeds of the fundraising event.

On March 11, 2020, the World Health Organization declared the outbreak of a novel coronavirus (“COVID-19”) as a global pandemic, which continues to spread throughout the United States. The impact of this pandemic has been and will likely continue to be extensive in many aspects of society, which has resulted in and will likely continue to result in significant disruptions to the global economy, as well as business and capital markets around the world. In an effort to halt the outbreak of COVID-19, the United States has placed significant restrictions on travel and many businesses have announced extended closures which could adversely impact the Organization's operations.

16. SUBSEQUENT EVENTS (Continued)

The Organization's management has reviewed the results of operations for the period of time from its year ended June 30, 2019 through April 28, 2020, 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 Six Months Ended June 30, 2019

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	-	176,585
Total Direct Programs				-	176,585
Pass-through the San Francisco Department of Public Health:					
HIV Emergency Relief Project Grants	7/1/18-2/28/19	93.914	BPHM14000007	-	111,411
HIV Emergency Relief Project Grants	3/1/19-2/29/20	93.914	BPHM14000007	-	200,640
HIV Emergency Relief Project Grants	3/1/18-2/28/19	93.914	DPHC16000456-02	-	31,411
HIV Emergency Relief Project Grants	10/1/18-2/28/19	93.914	DPHC16000456-02	-	148,474
HIV Emergency Relief Project Grants	3/1/19-2/28/20	93.914	DPHC16000456-02	-	197,635
HIV Emergency Relief Project Grants	3/1/19-2/28/20	93.914	DPHC16000456-02	-	120,000
HIV Emergency Relief Project Grants	10/1/18-2/28/19	93.914	DPHC16000456-02	-	158,670
				-	968,241
Department of Housing and Urban Development					
Pass-through the City and County of San Francisco:					
Community Development Block Grants/Entitlement Grants	7/1/18-6/30/19	14.218	B16MC060016	-	68,829
Community Development Block Grants/Entitlement Grants	7/1/18-6/30/19	14.218	B17MC060016	-	24,757
Community Development Block Grants/Entitlement Grants	7/1/18-6/30/19	14.218	B15MC060016	-	25,143
Total Department of Housing and Urban Development				-	118,729
Department of Education					
Pass-through the San Francisco Department of Public Health:					
State Vocational Rehabilitation Services	7/1/17-6/30/19	84.126A	29859	-	41,489
Total Department of Education				-	41,489
Total expenditures of federal awards				$ -	$ 1,305,044

PRC
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Six Months Ended June 30, 2019

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 June 30, 2019. 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 June 30, 2019, and the related consolidated statement of activities, functional expenses, and cash flows for the six months period then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 28, 2020.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2019-001 to be a material weakness.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2019-002 through 2019-005 to be significant deficiencies.

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

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2019-002.

PRC's Response to Findings

PRC's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. PRC’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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
April 28, 2020

BHLF LLP

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 six months period ended June 30, 2019. 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 June 30, 2019.

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2019-002. Our opinion on each major federal program is not modified with respect to these matters.

PRC's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. PRC's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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. However, we did identity certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2019-002 that we consider to be significant deficiencies.

PRC's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. PRC's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response

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
April 28, 2020

PRC

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Six Months Ended June 30, 2019

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weaknesses identified?	Yes
• Significant deficiencies identified that are not considered to be material weaknesses?	Yes
• 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?	Yes
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):	Yes

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

MATERIAL WEAKNESSES

2019-001 *Timely and Accurate Close of the Accounting Period*

Criteria: An appropriate system of internal controls requires the Organization to timely close the period or year end books and accurately reflect all account balances.

Condition: The Organization did not properly close the books for the six months period ended June 30, 2019. In particular, not all accounts were properly reconciled, therefore resulting in multiple material audit adjustments and audit delays.

Cause: The Organization had a turnover in its accounting and finance department.

Effect: The Organization was unable to timely provide a reconciled, consolidated trial balance.

Recommendation: Hire additional accounting personnel or engage accounting consultants who are familiar with GAAP and financial reporting.

Views of Responsible Officials: Due to staff turnover and the disruption created by a multi-site/multi-organization move to the new office location, the books were not properly closed for the six months ended June 30, 2019. Management has taken the following steps to prevent a recurrence of this issue:

- Hired qualified and experienced staff to fill vacancies in the CFO and Accounting Supervisor positions. These individuals are charged with, and are able to, implement policy and process improvements to ensure the timely and accurate executing of the accounting functions.

- Closing the books on a monthly basis, including reconciling all accounts. This will facilitate year-end closing by identifying and resolving issues on a monthly basis.

SIGNIFICANT DEFICIENCIES

2019-002 *No Time Studies, Proper Time Tracking, Time Allocation and Time Reporting for Payroll Purposes took place*

Criteria:: The Organizations is required to comply with OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). In addition, an appropriate system of internal controls requires management and the accounting department to adhere to and monitor the policies and procedures to ensure that they are operating effectively as designed.

SIGNIFICANT DEFICIENCIES - Continued

Condition: We noted that the Organization failed to perform semi-annual time studies, that timecards could not be located, and that time spent on non-program activities was billed to grants. In addition, non-exempt/hourly employees are compensated on annual straight lined hours, with adjustments made for overtime and/or days worked with less than eight hours. However, depending on the number of workdays per pay period, the hours worked and paid are either over or understated.

:

Cause: The Organization had a turnover in its accounting and finance, as well as HR department.

Effect: While not materially impacted, payroll expenses were incorrectly charged to the contracts, and non exempt employees received compensation which was not based on actual hours worked during the payroll periods.

Recommendation: We recommend that the Organization implement procedures for the payroll process to ensure internal control processes and procedures are operating effectively as designed. These procedures should be evaluated and reviewed by management and those charged with governance on an ongoing basis.

Views of Responsible Officials: Due to staff turnover and the disruption created by a multi-site/multi-organization move to the new office location, existing timekeeping and payroll processes were inadequately maintained. Management has taken the following steps to prevent a recurrence of this issue:

- Management will re-implement time studies to ensure that management estimates reflect work being done. Timecards have not been, nor are they currently being, used by salaried staff. Management will investigate the ability to implement a timecard system for salaried staff to replace the process of using management estimates.

- Management will revise the payroll process to ensure that hourly/non-exempt staff are paid based on hours worked rather than annual straight-lined hours.

2019-003 *Allocated Payroll Expenses Charged to Contracts were Higher than Incurred*

Criteria: An appropriate system of internal controls requires management and the accounting department to adhere to and monitor the policies and procedures to ensure that they are operating effectively as designed.

Condition: We noted instances in which the allocated payroll expense charged to contracts was higher than the actual allocated payroll expense incurred. Management was unable to provide an explanation and/or supporting documentation for the variances.

Cause: The Organization had a turnover in its accounting and finance, as well as HR department.

Effect: Payroll expenses were incorrectly charged to contracts.

SIGNIFICANT DEFICIENCIES - Continued

Recommendation: We recommend that the Organization implement procedures to ensure that internal control processes and procedures are operating effectively as designed. These procedures should be evaluated and reviewed by management and those charged with governance on an ongoing basis.

Views of Responsible Officials: The organization is implementing a comprehensive payroll allocation process that will ensure that allocations to contracts and grants accurately reflect staff time worked.

2019-004 *Improve Record Maintenance*

Criteria: *The Organization is responsible for maintaining complete, accurate and reliable financial records.*

Condition: We noted that the organization was unable to provide certain supporting documentation, such as approved grant billing invoices and approval documentation for additional wages paid. In addition, the "*FTE Allocation Spreadshee*t", a spreadsheet designed to list all employees and their allocated times to funding sources, was not properly updated for a new hire, who replaced a previous employee.

Cause: The Organization had a turnover in its accounting and finance, as well as HR department.

Effect: Not having adequate supporting documentation could lead to compliance failures in that expenses charged to grants might be considered questioned costs.

Recommendation: We recommend that the Organization implement procedures to ensure that all accounting records and supporting documentation are properly maintained.

Views of Responsible Officials: Due to staff turnover, and the disruption created by a multi-site/multi-organization move to the new office location, and the process of converting to electronic storage of accounts receivable invoices, accounting staff did not adequately maintain financial records. Management has since implemented a review process that ensures that accounting records are maintained in a logical and easily retrievable manner.

2019-005 *Achieve proper Cut-Off and Classification*

Criteria: The Organization is responsible for accurately capturing and classifying all accounting transactions in the period they occurred.

Condition: The Organization did no achieve a proper cut-off for its expenses, as well misclassified certain transactions as expense transactions when they should have been captured as other assets and/or deferred charges. Lastly, we noted one instance in which a transaction was captured prior to its occurrence.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Six Months Ended June 30, 2019

SIGNIFICANT DEFICIENCIES - Continued

Cause: The Organization had a turnover in its accounting and finance, as well as HR department.

Effect: Financial data may not be accurately presented in financial reports to grantors and the Board of Directors during any given accounting period.

Recommendation: We recommend that the Organization implement monitoring procedures to ensure all financial data is captured in the time period it occurred and is classified properly.

Views of Responsible Officials: Management has instituted monthly cut-off and accrual procedures to ensure that transactions are recorded in the appropriate accounting period and properly classified. The CFO reviews all financial transactions to ensure accuracy and completeness.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

U.S. Department of Human Health and Services
HIV Emergency Relief Formula Grant, CFDA No. 93.914

2019-002 *Allowable Costs/Cost Principles: No Time Studies, Proper Time Tracking, Time Allocation and Time Reporting for Payroll Purposes took place*

Criteria:: The Organizations is required to comply with OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). In addition, an appropriate system of internal controls requires management and the accounting department to adhere to and monitor the policies and procedures to ensure that they are operating effectively as designed.

Condition: We noted that the Organization failed to perform semi-annual time studies, that timecards could not be located, and that time spent on non-program activities was billed to grants. In addition, non-exempt/hourly employees are compensated on annual straight lined hours, with adjustments made for overtime and/or days worked with less than eight hours. However, depending on the number of workdays per pay period, the hours worked and paid are either over or understated.

:

Questioned Costs: None

Cause: The Organization had a turnover in its accounting and finance, as well as HR department.

Effect: While not materially impacted, payroll expenses were incorrectly charged to the contracts, and non exempt employees received compensation which was not based on actual hours worked during the payroll periods.

Recommendation: We recommend that the Organization implement procedures to ensure that internal control processes and procedures are operating effectively as designed. These procedures should be evaluated and reviewed by management and those charged with governance on an ongoing basis.

Views of Responsible Officials: Due to staff turnover and the disruption created by a multi-site/multi-organization move to the new office location, existing timekeeping and payroll processes were inadequately maintained. Management has taken the following steps to prevent a recurrence of this issue:

- Management will re-implement time studies to ensure that management estimates reflect work being done. Timecards have not been, nor are they currently being, used by salaried staff. Management will investigate the ability to implement a timecard system for salaried staff to replace the process of using management estimates.

- Management will revise the payroll process to ensure that hourly/non-exempt staff are paid based on hours worked rather than annual straight-lined hours.

PRC

SCHEDULE OF PRIOR YEAR FINDINGS
For The Year Ended December 31, 2018

Financial Statement Findings

There were no prior audit findings in internal control over financial reporting.

Federal Award Findings

There were no prior audit findings or questioned costs.