PRC

INDEPENDENT AUDITOR'S REPORT
AND CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2022

HARSHWAL® & COMPANY LLP

CERTIFIED PUBLIC ACCOUNTANTS

PRC

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HARSHWAL® & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
PRC
San Francisco, CA

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of PRC (a non-profit organization) which comprise the consolidated statement of financial position as of June 30, 2022, and the related consolidated statement of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PRC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about PRC's ability to continue as a going concern for a reasonable period of time.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 6, 2023, on our consideration of PRC, Inc.'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.

Harshwal & Company LLP

Oakland, California
July 6, 2023

CONSOLIDATED FINANCIAL STATEMENTS

PRC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2022

ASSETS	
Current assets	
Cash and cash equivalents	$ 1,639,475
Investments	190,146
Accounts and grants receivable, net	1,907,033
Prepaid expenses and other	131,340
Total current assets	3,867,994
Deposits	524,813
Property and equipment, net	22,420,777
Intangibles, net	171,569
Total assets	$ 26,985,153
LIABILITIES AND NET ASSETS	
Current liabilities	
Accounts payable and accrued expenses	$ 3,690,846
Refundable advance	201,010
Current portion of Paycheck Protection Program loan	163,295
Current portion of capital leases	53,954
Current portion of long-term debt	1,500,935
Total current liabilities	5,610,040
Accrued interest	1,169,870
Deferred revenue	3,209,457
Deferred rent, net	2,657,931
Paycheck Protection Program loan, net of current portion	264,937
Capital leases, net of current portion	93,142
Long-term debt, net of current portion	5,555,713
Total liabilities	18,561,090
NET ASSETS	
Without donor restrictions	7,382,622
With donor restrictions	1,041,441
Total net assets	8,424,063
Total liabilities and net assets	$ 26,985,153

PRC

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE, GAINS, AND OTHER SUPPORT:			
Government awards	$ 24,148,870	$ -	$ 24,148,870
Program fees	326,547	-	326,547
Contributions	1,054,911	1,197,660	2,252,571
Fundraising event, net	506,349	-	506,349
Client rent	326,440	-	326,440
Investment loss, net	(14,353)	-	(14,353)
In-kind contributions	307,886	-	307,886
Gain on forgiveness of debt - PPP	2,665,979	-	2,665,979
Other	662,011	-	662,011
Net assets released from restrictions	503,626	(503,626)	-
Total revenue, gains, and other support	30,488,266	694,034	31,182,300
EXPENSES:			
Program	25,517,903	-	25,517,903
Management and general	5,660,207	-	5,660,207
Fundraising	724,258	-	724,258
Total expenses	31,902,368	-	31,902,368
Change in net assets	(1,414,102)	694,034	(720,068)
Net assets at beginning of year	8,796,724	347,407	9,144,131
Net assets at end of year	$ 7,382,622	$ 1,041,441	$ 8,424,063

The accompanying notes are an integral part of these financial statements

PRC

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2022

	Program	Management and General	Fundraising	Total
Salaries and benefits	$ 17,952,260	$ 1,998,094	$ 328,205	$ 20,278,559
Fee for service	1,178,384	1,546,940	193,566	2,918,890
Advertising and promotion	91,759	3,746	5,462	100,967
Grants and contract	1,458,741	660	325	1,459,726
Office	886,232	168,042	32,462	1,086,736
Occupancy	3,402,817	624,536	118,793	4,146,146
Depreciation and amortization	63,351	1,025,822	-	1,089,173
Insurance	306,461	66,756	7,530	380,747
Interest	41,747	173,697	3	215,447
Miscellaneous	86,385	31,722	113	118,220
Travel and meetings	49,766	20,192	37,799	107,757
Total	$ 25,517,903	$ 5,660,207	$ 724,258	$ 31,902,368

The accompanying notes are an integral part of these financial statements

PRC

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2022

Cash flows from operating activities:	
Change in net assets	$ (720,068)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	1,089,173
Favorable accretion of lease obligations	(130,403)
Amortization of loan expenses	20,542
Forgiveness of debt - PPP	(2,665,979)
Unrealized loss on investments, net	(12,128)
Changes in operating assets and liabilities:	
Accounts receivable, net	(215,535)
Pledges and grants receivable	49,962
Prepaid expenses	86,584
Deposits	(79,998)
Accounts payable and accrued expenses	1,146,514
Accrued interest	139,763
Deferred rent	22,217
Deferred revenue	2,020,361
Net cash provided by operating activities	751,005
Cash flows from investing activities:	
Purchase of property and equipment	(774,432)
Sale of investments, net	344,499
Net cash used in investing activities	(429,933)
Cash flows from financing activities:	
Repayment of line of credit	(350,000)
Repayment of capital lease obligations	(108,157)
Repayment of PPP loan	(35,698)
Proceeds from long term debt	496,561
Net cash provided by financing activities	2,706
Net change in cash and cash equivalents	323,778
Cash and cash equivalents, beginning of year	1,315,697
Cash and cash equivalents, end of year	$ 1,639,475
Supplemental disclosures:	
Cash paid for interest	$ 133,846
Composition of cash and cash equivalents, end of year:	
Cash and cash equivalents	$ 1,479,424
Restricted cash - Maintenance costs of specific programs	160,051
Restricted cash - Operating reserves	201,010
	$ 1,639,475

NOTE 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 Inc. (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 was acquired by the Organization in 2017. 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. Baker Places Inc. also adopted Baker Places Grove Street LLC, a California limited liability company (the Company) as of February 13, 2020. The Company is a drug and alcohol addiction treatment center and Baker Places Inc. is a sole member of the Company. The Company is organized and operated exclusively for charitable purposes as specified in section 214 of the California Revenue and Taxation Code (RT Code).

On August 23, 2021, the San Francisco Mayor’s Office of Housing and Community Development (MOHCD) and the Organization finalized an agreement for the Organization to own and manage Leland House as a transitional residential care facility (TRCF) beginning October 1, 2021. Leland House is California’s second largest housing facility for people living with HIV/AIDS, with a capacity to house 45 residents. The property was owned by Mercy Housing California, who acquired the building in 1996, and operated by Catholic Charities, who opened the facility in 1997. As a state-licensed RCFCI, Leland House has provided permanent placement and on-site medical and case management care to low-income San Francisco residents who have disabling HIV/AIDS.

Per the new agreement, the Organization will also oversee future rehabilitation of the 20,000 square foot building nestled in San Francisco’s Visitacion Valley neighborhood.

Following the agreement, on September 30, 2021, the Organization formed Leland House LLC, a California Limited Liability Company, under the laws of the State of California. The Organization is a sole member of Leland House LLC. As of June 30, 2022, Leland House LLC had no activity that required to be consolidated in the Organization's consolidated financial statements (see Note 15).

NOTE 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 are 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.

Principles of consolidation - Effective March 31, 2017, the Organization entered into an Agreement of Affiliation with Baker Places 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 (along with Baker Places Grove Street LLC). All significant 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. In addition, the Organization has restricted cash held for operating reserves relating to the operation of Leland House.

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONT'D)

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, pledges, 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, 2022, no allowance for doubtful accounts was 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, 2022, the remaining deferred rent liability is $2,657,931.

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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONT'D)

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. During 2022, the Organization recorded $307,886 legal services received on pro bono basis. This amount was recognized as in-kind contribution and non-program expense in the consolidated statement of activities.

Deferred revenue - Overpayments received from the San Francisco Department of Public Health (DPH) from fiscal years 2008 through 2010 and 2016 under the Mental Health program are classified as deferred revenue and decreased annually according to the schedule agreed with the agency. Also, during the fiscal year 2022, the Organization received a payment of $1.9 million from DPH in support of its financial sustainability plan, and this amount is recognized as deferred revenue in the consolidated financial statements. As described in Note 15, subsequent to the fiscal year-end, the Organization renegotiated the payment terms, and payments for these debts were deferred, with the first payment of the obligation to occur in July 2023. As per the new payment terms, the Organization will repay the outstanding debt and interest as offsets for services provided under contract with the City over a term of 20 years, beginning with services provided in July 2023 and concluding with services provided in June 2043.

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
Salaries and benefits	Time and effort
Occupancy	Time and effort
Fee for service	Time and effort
Grants and contract	Time and effort
Advertising and promotion	Time and effort
Depreciation and amortization	Time and effort
Insurance	Time and effort
Travel and meetings	Time and effort
Miscellaneous	Time and effort

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONT'D)

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 23701(d) 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 effect 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, 2022.

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 2018.

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 year ended June 30, 2022.

Recently Adopted Accounting Standards - In September 2020, the FASB issued ASU No. 2020-07, Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets, which requires a separate line-item for contributed nonfinancial assets on the statement of activities, apart from contributed cash and other financial assets. ASU 2020-07 should be applied on a retrospective basis and is effective for annual reporting periods beginning after June 15, 2021. There was no change in net assets as a result of the adoption of this ASU.

Recent accounting pronouncements - The Organization is currently evaluating the impact of adoption of the new standard on the financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires organizations that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the consolidated statements of financial position for leases with terms exceeding 12 months. ASU 2016-02 defines a lease as a contract or part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. ASU 2016-02 is effective for the Organization in fiscal year 2023. Early adoption is permitted. The Organization is currently evaluating this guidance and the impact on the consolidated financial position, results of operations, and disclosures.

NOTE 3: AVAILABILITY AND LIQUIDITY

The Organization regularly monitors the availability of resources required to meet its operating needs and other commitments, while also striving to maximize the investment of its available funds. The following represents the Organization's financial assets available to meet general expenditures in one year at June 30, 2022.

Financial assets at year end:	
Cash and cash equivalents	$ 1,639,475
Investments	190,146
Accounts receivable	1,907,033
	3,736,654
Amounts not available to be used within one year:	
Net asset with donor restrictions	(1,041,441)
Restricted cash	(361,061)
Financial assets available to meet general expenses within one year	$ 2,695,213

The Organization's goal is generally to maintain financial assets to meet 60 days of operating expenses. As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts.

NOTE 4: INVESTMENTS AND FAIR VALUE MEASUREMENT

Investments are comprised of the following at June 30, 2022.

	Fair Value
Exchange-Traded & Closed-End Funds	$ 18,927
Mutual funds	164,263
Cash	6,956
Total	$ 190,146

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;

NOTE 4: INVESTMENTS AND FAIR VALUE MEASUREMENT - (CONT'D)

- 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.

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 table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2022.

	Level 1	Level 2	Level 3	Total
Exchange-Traded & Closed-End Funds	$ 18,927	$ -	$ -	$ 18,927
Mutual funds	164,263	-	-	164,263
Cash	6,956	-	-	6,956
Total investments	$ 190,146	$ -	$ -	$ 190,146

There have been no changes in the methodologies used at June 30, 2022.

NOTE 5: PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2022.

Land	$ 7,574,404
Buildings and improvements	10,873,471
Leasehold improvements	6,679,475
Office equipment, furniture and vehicles	399,952
Construction in progress	698,370
Capital leases	167,300
	26,392,972
Less: Accumulated depreciation	3,972,195
	$ 22,420,777

NOTE 6: INTANGIBLES

The Organization's intangible assets consist of the following at June 30, 2022.

	Amount	Remaining Weighted Average Amortization
Favorable leases	$ 951,208	17.58 Years
Accumulated amortization	(779,639)	
	$ 171,569	

NOTE 7: LONG TERM DEBT

Long term debt consists of the following as of June 30, 2022:

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. Remaining principal balance is due May 2023.	$ 304,680
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.	498,654
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 was due December 2021. In May 2023, the loan was extended for 30 years.	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 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 City and County of San Francisco, a municipal corporation, represented by the Mayor's Office of Housing and Community Development is collateralized by a deed of trust and accrues simple interest at 3% per annum. Principal and all accrued interest are due January 2050.	3,681,670

NOTE 7: LONG TERM DEBT - (CONT'D)

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 in December 2041.	$ 110,000
Other Notes Payable	
Note payable to Northern California Community Loan Fund, a nonprofit 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. 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. On February 24, 2021, the loan amount was amended to $1,726,300 with a monthly principal and interest payment of $25,052. In addition, in August 2022, the Organization is required to pay an amount not less than 20% of the outstanding loan balance and a balloon payment of $674,679 at maturity. The note matures on June 12, 2024.	1,449,401
Unamortized Debt Discount	(472,803)
Unamortized Debt Issuance Costs	(56,781)
Total debt	7,056,648
Less: current portion	1,500,935
Long-term debt, net of current portion	$ 5,555,713

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, 2022, the total unamortized debt discount is $472,803.

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 and are amortized over the life of the note payable. For the year ended June 30, 2022, the total amortization expense of $2,887 was captured as interest expense on the accompanying consolidated statement of activities.

Maturities of long term debt/future payments are as follows:

2023	$ 1,500,935
2024	926,800
2025	-
2026	-
2027	-
Thereafter	5,158,497
	$ 7,586,232

NOTE 8: PAYCHECK PROTECTION PROGRAM LOAN

In April 2020, the Organization entered into a promissory note agreement with Self - Help Federal Credit Union in the amount of $687,609 pursuant to the paycheck protection Program (PPP) created by the Coronavirus Aid, Relief, and Economic Security Act (CARES) and governed by the Small Business Administration (SBA). The note accrues interest at one percent per annum and is scheduled to mature in April 2022. Up to 100% percent of the loan is forgivable when used to pay specified payroll and other costs within the qualified period (generally 24 weeks after receiving the funds). In August 2021 the loan was forgiven 100%. The full amount of the loan was recognized as gain in the accompanying consolidated statement of activities.

In May 2020, Baker Places entered into a promissory note agreement with Umpqua Bank in the amount of $2,442,300 pursuant to the paycheck protection Program (PPP) created by the Coronavirus Aid, Relief, and Economic Security Act (CARES) and governed by the Small Business Administration (SBA). The note accrues interest at one percent per annum and was scheduled to mature in May 2022. Up to 100% percent of the loan is forgivable when used to pay specified payroll and other costs within the qualified period (generally 24 weeks after receiving the funds). In March 2022, the Small Business administration (SBA) had forgiven $1,984,016 of the PPP loan, and renegotiated the terms for the remaining $458,284. As per the new agreement, Baker Places will pay 36 monthly principal and interest payments of $13,197, with the first payment due on April 8, 2022. The loan is eligible for forgiveness under the CARES Act and the terms of PPP of the SBA. The forgiven loan amount was recognized gain in the accompanying consolidated statement of activities.

Loan maturities for each of the five years following June 30, 2022, are as follows:

2023	$ 163,295
2024	156,425
2025	108,512
2026	-
2027	-
Thereafter	-
	$ 428,232

NOTE 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.

Capital lease obligations consisted of the following as of June 30, 2022.

Capital lease for copiers for the Organization's administrative office location payable in monthly installments of $2,730 through July 2025.	$ 101,629
Capital lease for copiers for the Organization's administrative office location payable in monthly installments of $2,679 through May 2024.	61,607
Capital lease obligations	163,236
Amounts representing interest	(16,140)
Present value of minimum lease payments	147,096
Current portion	(53,954)
Capital lease obligations, net of current portion	$ 93,142

NOTE 9: CAPITAL LEASES - (CONT'D)

The future annual minimum lease payments required under the capital leases as of June 30, 2022, are as follow.

2023	$ 65,522
2024	62,224
2025	32,760
2026	2,730
Amounts representing interest	(16,140)
	$ 147,096

NOTE 10: NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at June 30, 2022 amounting to $1,041,441 represents the outstanding funds that were received as contributions where the timing or the purpose restrictions as stipulated by donors were not satisfied through June 30, 2022. Additions to net assets with donor restrictions for the year ended June 30, 2022 were $1,197,660 and releases from net assets with donor restrictions for the year ended June 30, 2022 were $503,626.

NOTE 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 was $112,928 for the year ended June 30, 2022.

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 year ended June 30, 2022 were $229,354.

NOTE 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.

NOTE 12: COMMITMENTS - (CONT'D)

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 year ended June 30, 2022, relating to long-term lease agreements is $2,564,618.

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

2023	$ 1,638,545
2024	1,691,348
2025	1,746,168
2026	1,802,345
2027	1,860,420
Thereafter	6,375,165
	$15,113,991

NOTE 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 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, were 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, 2022, was $1,094,083 which has not been recorded.

NOTE 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.

NOTE 15: SUBSEQUENT EVENTS

The Organization's management has reviewed the results of operations for the period of time from its year ended June 30, 2022 through July 6, 2023, the date these consolidated financial statements were available to be issued, and has determined that no adjustments are necessary to the amounts reported in the accompanying consolidated financial statements nor have any subsequent events occurred, the nature of which would require disclosure, other than the items disclosed below:

NOTE 15: SUBSEQUENT EVENTS - (CONT'D)

1. In September 2022, the Organization has been threatened with a claim in connection with its facility at 2153-57 Grove Street in San Francisco (Grove Street House). Since 2021, the Claimant has raised objections in connection with a major renovation project at Grove Street House, with the Claimant contending that the Organization has created a nuisance and been negligent in its handling of the construction, and that the Claimant has lost the use of her property and suffered other damages. On September 13, 2022, the Claimant's attorney sent the Organization a demand letter, claiming $1 million in damages, but also stating the Claimant to mediate the dispute. The Organization contends that any property damage was caused by the Organization's contractors and should be resolved by the contractors or their insurance. The Claimant has filed a lawsuit. The outcome of the claim is considered indeterminable and the range of possible loss is uncertain.
2. In July 2022, the Organization signed a grant agreement with the City and County of San Francisco Department of Public Health for $1,250,000. The purpose of this Grant is to provide funding to enable the Organization to complete its financial review, business plan, and financial plans sufficient to assure the City of the financial viability and stability of the Organization's programs.
3. In July 2022 Mercy Housing California transferred ownership of Leland House, a Residential Care Facility, to Leland house, LLC, with a purchase price of $1,000 plus the assumption of outstanding debt, currently estimated in the amount of $5,580,168.
4. Based on FY22 monitoring activities and external audits, the Controller's Office and City departments placed the Organization on Red Flag status due to its financial instability. The purpose of the Red Flag designation is to allow the City to continue monitoring the Organization as the Organization implements the corrective actions required to improve its financial position, including those prescribed per DPH's Corrective Action Plan (issued August 8, 2022), and to provide coaching and support to the Organization on issues of governance, financial planning, and business model development.
5. On October 3, 2022, the Organization's management notified DPH of its decision to discontinue operating several residential programs and to return their operations to the DPH. In January 2023, the Organization discontinued and successfully transferred Joe Healy Detox and Acceptance Place programs to new providers without service disruption to clients.
6. During fiscal year 2023, the Organization received an advance payment of $4.64 million on its fiscal year 2023 DPH contracts from DPH. Together with the $3.21 million deferred revenue included in the consolidated statement of financial position, the accumulated debt owed by the Organization to DPH is $7.85 million. In June 2023, the Organization proposed to DPH to restructure the $7.85 million debt, including the existing obligation of $3.21 million deferred revenue. As per the proposed payment terms, the Organization will repay the outstanding debts and interest using proceeds of the sale of real estate as well as offsets for services provided under contract with the City over a term of approximately 20 years, beginning with services provided in July 2023 and concluding with services provided in May 2043.

SUPPLEMENTARY INFORMATION

PRC

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2022

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Grant Period	Federal Assistance Listing Number (ALN)	Pass-Through Grantor Identification Number	Federal Expenditures	Amounts Provided to Subrecipient
US Department of Housing and Urban Development					
Pass-through: City and County of San Francisco					
Community Development Block Grants / Entitlement Grants	7/1/21-6/30/22	14.218	B-20-MC-06-0016	$ 71,971	$ -
Housing Opportunities for Persons With AIDS	8/1/21-6/30/22	14.241	CAH20F003	1,358,687	1,203,921
Total Department of Housing and Urban Development				1,430,658	1,203,921
US Department of Education					
Pass-through: State of California					
State Vocational Rehabilitation Services Program	7/1/21-6/30/22	84.126A	31033	46,636	-
Total US Department of Education				46,636	-
US Department of Health and Human Services					
Pass-through: City and County of San Francisco					
HIV Emergency Relief Project Grants	7/1/21-2/28/22	93.914	DPH1000010913	302,026	-
HIV Emergency Relief Project Grants	3/1/22-6/30/22	93.914	DPH1000010913	143,124	-
HIV Emergency Relief Formula Grant	7/1/21-2/28/22	93.914	DPHC16000456-02	480,054	-
HIV Emergency Relief Formula Grant	3/1/22-6/30/22	93.914	DPHC16000456-02	135,011	-
HIV Emergency Relief Formula Grant	11/1/21-2/28/22	93.914	DPHC16000456-02	126,764	-
HIV Emergency Relief Formula Grant	3/1/22-6/30/22	93.914	DPHC16000456-02	94,275	-
HIV Emergency Relief Project Grants	8/1/21-4/30/22	93.914	DPHC16000456-02	350,000	-
Total US Department of Health and Human Services				1,631,254	-
Total expenditures of federal awards				$ 3,108,548	$ 1,203,921

See the accompanying notes to Schedule of Expenditures of Federal Awards

PRC

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2022

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, 2022. 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.

NOTE 3 - AMOUNTS PROVIDED TO SUBRECIPIENTS

The amount provided to the Subrecipient is summarized as follows:

Federal Grantor/Pass-through Grantor/Program	Federal Assistance Listing Number	Contract or Program Number	Subrecipient	Amount
US Department of Housing and Urban Development				
Pass-through: City and County of San Francisco				
Housing Opportunities for Persons With AIDS	14.241	CAH20F003	Baker Places, Inc.	$1,203,921

OTHER INDEPENDENT AUDITOR'S REPORTS

HARSHWAL® & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

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

To the Board of Directors of
PRC
San Francisco, CA

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, which comprise the consolidated statement of financial position as of June 30, 2022, and the related consolidated statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 6, 2023.

Report on 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) as a basis for designing 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. 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 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.

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 deficiency described in the accompanying schedule of findings and questioned costs as items 2022-001 to be a significant deficiency.

Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 2022-001.

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.

Harshwal & Company LLP

Oakland, California
July 6, 2023

HARSHWAL® & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

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

To the Board of Directors of
PRC
San Francisco, CA

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited PRC compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of PRC's major federal programs for the year ended June 30, 2022. The PRC's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

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

Basis for Opinion on Each Major Federal Program

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

We are required to be independent of the PRC and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the PRC's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

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

Auditors' Responsibilities for the Audit of Compliance

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

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

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the PRC's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of the PRC's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the PRC's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiency.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2022-002 to be significant deficiency.

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

Government Auditing Standards requires the auditor to perform limited procedures on the PRC's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. PRC's response was not subjected to the other 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.

Harshwal & Company LLP

Oakland, California
July 6, 2023

PRC
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2022

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	Yes
• Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	Yes
Type of auditors' report issued on compliance for major program(s):	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)?	Yes

IDENTIFICATION OF MAJOR PROGRAM(S):

Assistance Listing Numbers (ALN)	Name of Federal Program or Cluster
93.914	HIV Emergency Relief Formula Grant
14.241	Housing Opportunities for Persons With AIDS

Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as low-risk auditee?	No

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2022-001: No Time Studies, Proper Time Tracking, Time Allocation, Time Reporting (Significant Deficiency)

Criteria: Strong internal controls mandate that proper time tracking, reporting, and segregation of duties are observed in the payroll processing.

Condition: We noted that PRC did not conduct and document semi-annual time studies to ensure that all staff time is allocated properly across all contracts and funding sources. Also, as per PRC's internal procedure manual, time sheets should be updated by both salaried and hourly employees; however, approved time cards for salaried employees could not be located.

Effect: Proper time tracking and the completion of time study enables PRC to establish that its full-time employees do, in fact, work exclusively on the program. Without the time to study, employee assignments away from grant functions could be overlooked.

Cause: Due to turnover, PRC did not follow its policies and procedures regarding the retention of payroll supporting documentation.

Repeat finding: Yes

Recommendation: We recommend that PRC 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: PRC concurs with the finding and has implemented the following steps to correct the condition:

a. PRC instituted new quarterly time study documentation procedures in January 2023, requiring supervisors to approve time allocations for all staff.
b. PRC instituted new payroll procedures requiring supervisors to document approval of time submitted by all staff through our electronic payroll system, including a retroactive review and approval of all time submitted since July 2022.
c. Staff were trained on the new procedures during June 2022 and the procedures are being incorporated into a new combined PRC and Baker Places, Inc. Financial Policies and Procedures Manual, which will be finalized and circulated to all staff in July 2023.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2022-002: Activities Allowed or Unallowed and Allowable Costs/Cost Principles: , No Time Studies, Proper Time Tracking, Time Allocation, and Time Reporting (Significant Deficiency)

Federal program information:

Funding agency:	U.S. Department of Human Health and Services
Title:	HIV Emergency Relief Formula Grant
ALN:	93.914
Funding agency:	U.S. Department of Housing and Urban Development
Title:	Housing Opportunities for Persons With AIDS
ALN:	14.241

Criteria: According to 2 CFR §225, Appendix B, charges to federal awards for salaries and wages should be based on payrolls documented in accordance with generally accepted practices within the Organization and approved by a responsible official of the Organization. Further, charges for salaries and wages will be signed by the employee and supervisory official having firsthand knowledge of the work performed by the employee.

Additionally, in accordance with 2 CFR 200.430(i)(1), charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

I. Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;
II. Be incorporated into the official records of the non-Federal entity;
III. Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities;
IV. Encompass both Federally assisted and all other activities compensated by the non-Federal entity on an integrated basis, but may include the use of subsidiary records as defined in the non-Federal entity's written policy;
V. Comply with the established accounting policies and practices of the non-Federal entity; and
VI. Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.

Condition: We noted that PRC did not have controls in place to ensure that all payroll expenditures were properly supported per PRC's policies and procedures.

- HIV Emergency Relief Formula Grant (ALN 93.914) - As per PRC's internal procedure manual, time sheets should be updated by both salaried and hourly employees; however, time cards for 22 samples could not be located.
- Housing Opportunities for Persons With AIDS (ALN 14.241) - For payroll samples selected for testing, we were unable to determine how payroll was tracked and charged for all of the employees who provide direct services related to this program.

Cause: PRC did not follow its policies and procedures regarding the retention of payroll supporting documentation.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS- (CONT'D)

Effect: Payroll related charges to the program are not supported. PRC is not in compliance with 2 CFR 200.430(i)(1) regarding documentation in support of salaries and wages charge to the federal program.

Questioned Costs: Questioned costs were not determinable.

Repeat finding: No

Recommendation: We recommend that PRC implement control procedures to ensure that all payroll costs charged to the federal program are supported by documentation as required by 2 CFR 200.430(i)(1). Further, we recommend PRC to conduct and document semi-annual time studies to ensure that all staff time is allocated properly across all contracts and funding sources.

Views of Responsible Officials: PRC concurs with the finding and has implemented the following steps to correct the condition:

a. PRC instituted new quarterly time study documentation procedures in January 2023, requiring supervisors to approve time allocations for all staff.

b. PRC instituted new payroll procedures requiring supervisors to document approval of time submitted by all staff through our electronic payroll system, including a retroactive review and approval of all time submitted since July 2022.

c. Staff were trained on the new procedures during June 2022 and the procedures are being incorporated into a new combined PRC and Baker Places, Inc. Financial Policies and Procedures Manual, which will be finalized and circulated to all staff in July 2023.

PRC

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2022

FINDING	PRIOR YEAR AUDIT FINDINGS	STATUS
Financial Statement Findings		
2021-001	No Time Studies, Proper Time Tracking, Time Allocation and Time Reporting, and Segregation of Duties (Significant Deficiency).	Partially resolved (See repeat finding 2022-001).
Federal Award Findings		
2021-002	Allowable Costs/Cost Principles: No proper employee pay rate documentation, No Time Studies, Proper Time Tracking, and Time Reporting for Payroll (Significant Deficiency).	Partially resolved (See repeat finding 2022-002).
2021-003	Cash Management: Supporting documentation was inadequate to determine that federal reimbursement was requested before the expenditures were incurred.	Resolved.

July 6, 2023
Harshwal & Company, LLP
333 Hegenberger Rd, Suite 328
Oakland, CA 94621

As required by Title 2 As required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), we have provided below our responses and corrective action plans addressing the findings noted in the PRC's Single Audit reporting package for the year ended June 30, 2022.

Response and Corrective Action Plan

1. **Finding 2022-002 (Prior Year Finding 2021-002) - Activities Allowed or Unallowed and Allowable Costs/Cost Principles, No Time Studies, Proper Time Tracking, Time Allocation and Time Reporting (Significant Deficiency)**

Response and Corrective Action Plan:
PRC and Baker Places, Inc. (collectively, “PRC”), concurs with the finding and has implemented the following steps to correct the condition:

a. PRC instituted new payroll procedures requiring supervisors to document approval of time submitted by all staff through our electronic payroll system, including a retroactive review and approval of all time submitted since July 2022.
b. Staff were trained on the new procedures during June 2022 and the procedures are being incorporated into a new combined PRC and Baker Places, Inc. Financial Policies and Procedures Manual which will be finalized and circulated to all staff in July, 2023.

Anticipated completion date: July 2023
Responsible person: Leo Levenson, CFO, PRC and Baker Places, Inc.

DocuSigned by:
Chuan Teng
4D72DD7FE261408...

Signature
Title **Chief Executive Officer**

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