PRC

INDEPENDENT AUDITOR'S REPORT
AND CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

HARSHWAL & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

PRC

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
PRC
San Francisco, CA

Report on the Consolidated 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, 2020, and the related consolidated statement of activities, functional expenses, and cash flows for the year 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 respective financial position of PRC and Affiliate as of June 30, 2020, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 March 25, 2022, 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.

Harshwal & Company LLP

Oakland, California
March 25, 2022

CONSOLIDATED FINANCIAL STATEMENTS

PRC
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2020

ASSETS	
Current assets	
Cash and cash equivalents	$ 3,861,316
Restricted cash	426,249
Accounts receivable, net	2,277,031
Pledges and grants receivable	125,876
Prepaid expenses and other	329,133
Investments	367,337
Total current assets	7,386,942
Deposits	439,815
Property and equipment, net	23,391,557
Intangibles, net	191,176
Total assets	$ 31,409,490
LIABILITIES AND NET ASSETS	
LIABILITIES	
Current liabilities	
Accounts payable and accrued expenses	2,501,322
Deferred revenue	144,000
Line of credit	450,000
Paycheck Protection Program loan	3,129,909
Current portion of capital leases	97,524
Current portion of long-term debt	1,850,570
Total current liabilities	8,173,325
Accrued interest	898,338
Deferred revenue, net of current portion	1,368,490
Deferred rent, net	2,510,785
Capital leases, net of current portion	131,405
Long-term debt, net of current portion	4,760,617
Total liabilities	17,842,960
NET ASSETS	
Without donor restrictions	13,072,922
With donor restrictions	493,608
Total net assets	13,566,530
Total liabilities and net assets	$ 31,409,490

The accompanying notes are an integral part of these financial statements

PRC
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE, GAINS, AND OTHER SUPPORT:			
Government awards	$ 23,465,556	$ -	$ 23,465,556
Program fees	959,567	-	959,567
Foundation and corporate grants	386,426	564,300	950,726
Contributions	957,083	-	957,083
Fundraising event, net	374,583	-	374,583
Client rent	332,361	-	332,361
Investment return, net	5,427	-	5,427
Other	429,449	-	429,449
Net assets released from restrictions	305,692	(305,692)	-
Total revenue, gains, and other support	27,216,144	258,608	27,474,752
EXPENSES:			
Programming	23,626,659	-	23,626,659
Management and general	4,585,883	-	4,585,883
Fundraising	1,598,246	-	1,598,246
Total expenses	29,810,788	-	29,810,788
Change in net assets	(2,594,644)	258,608	(2,336,036)
Net assets at beginning of year	15,667,566	235,000	15,902,566
Net assets at end of year	$ 13,072,922	$ 493,608	$ 13,566,530

The accompanying notes are an integral part of these financial statements

PRC
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020

	Program	Management and General	Fundraising	Total
Salaries and benefits	$ 16,279,551	$ 2,588,523	$ 878,691	$ 19,746,765
Fee for service	571,303	256,346	306,280	1,133,929
Advertising and promotion	89,672	1,603	6,573	97,848
Grants and contract	1,672,995	-	2,840	1,675,835
Office	872,450	85,838	60,059	1,018,347
Occupancy	3,682,241	347,723	193,392	4,223,356
Depreciation and amortization	69,745	782,913	-	852,658
Insurance	212,527	25,348	6,789	244,664
Interest	58,944	211,259	1,807	272,010
Miscellaneous	32,638	248,693	-	281,331
Travel and meetings	84,593	30,108	141,140	255,841
Business	-	7,529	675	8,204
Total	$ 23,626,659	$ 4,585,883	$ 1,598,246	$ 29,810,788

The accompanying notes are an integral part of these financial statements

PRC
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020

Cash flows from operating activities:	
Change in net assets	$ (2,336,036)
Adjustments to reconcile change in net assets to net cash provided by/(used in) operating activities:	
Depreciation and amortization	852,658
Unfavorable accretion of lease obligations	(65,516)
Amortization of loan expenses	28,916
Unrealized loss on investments, net	(9,536)
Changes in operating assets and liabilities:	
Restricted cash	(377,291)
Accounts receivable, net	(175,935)
Government grants receivable	388,028
Pledges and grants receivable	267,778
Prepaid expenses	(188,734)
Accounts payable and accrued expenses	1,074,949
Accrued interest	81,886
Deferred rent	233,105
Deferred revenue	(246,123)
Net cash used in operating activities	(471,851)
Cash flows from investing activities:	
Purchase of property and equipment	(2,392,316)
Purchase of investments, net	(120,092)
Net cash used in investing activities	(2,512,408)
Cash flows from financing activities:	
Borrowing on line of credit	200,000
Repayments of capital lease obligations	(116,174)
Proceeds from PPP loan - Conditional Grant	3,129,909
Proceeds from long term debt, net of loan origination costs	2,827,209
Repayments of long term debt	(34,877)
Net cash provided by financing activities	6,006,067
Net change in cash and cash equivalents	3,021,808
Cash and cash equivalents, beginning of year	839,508
Cash and cash equivalents, end of year	$ 3,861,316
Supplemental disclosures:	
Cash paid for interest	$ 52,010

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. Baker Places Inc. is a sole member of Baker Places Grove Street LLC. The purpose of the limited liability company is to engage in any lawful act or activity for which a limited liability company may be organized under the California Revised Uniform Limited Liability Company Act. The Company is organized and operated exclusively for charitable purposes as specified in section 214 of the California Revenue and Taxation Code (“RT Code”).

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.

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

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.

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.

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.

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

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, pledges, 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, 2020, 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, 2020, the remaining deferred rent liability is $2,510,785.

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.

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.

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

Advertising – Advertising costs are expensed as incurred.

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

The expenses that are allocated include the following:

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

Income taxes - The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from California franchise taxes under Section 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, 2020.

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 2016.

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, 2020.

Recent accounting pronouncements - In May 2014, the FASB issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers* (“ASU 2014-09”). As compared to existing guidance on revenue recognition, ASU 2014-09 will significantly enhance comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets. The largely principles-based guidance in ASU 2014-09 will provide a framework for addressing revenue recognition issues comprehensively for entities that apply GAAP in addition to those entities that apply International Financial Reporting Standards. The guidance in ASU 2014-09 also improves GAAP by reducing the number of requirements to which an entity must consider in recognizing revenue, as well as requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. The effective date of ASU 2014-09 was further deferred by ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities,* to annual periods beginning after December 15, 2019.

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

The Organization is currently evaluating the impact of adoption of the new standard on the financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which provides for the Organization a new model for accounting by lessees, whereby the rights and obligations under substantially all leases, existing and new, would be capitalized and recorded on the statements of financial position. The effective date of ASU 2016-02 was deferred by ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities,* to annual periods beginning after December 15, 2021. The adoption of ASU 2016-02 is effective for the Organization for the year beginning July 1, 2022. Management is currently evaluating the impact of the provisions of ASU 2016-02 on the financial statements.

In September 2020, the FASB issued ASU No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* ("ASU 2020-07"), to increase the transparency of contributed nonfinancial assets for not-for-profit entities through enhancements to presentation and disclosure. ASU 2020-07 should be applied on a retrospective basis and is effective for the Organization for the year ending June 30, 2022, with early adoption permitted. Management is currently evaluating the impact of the provisions of ASU 2020-07 on the financial statements.

NOTE 3: AVAILABILITY AND LIQUIDITY

The Organization had the following financial assets that could readily be made available within one year to fund expenses without limitations:

Financial assets at year end:	
Cash and cash equivalents	$ 3,861,316
Accounts receivable	2,277,031
Pledges and grants receivable	125,876
Investments	367,337
	6,631,560
Less; amounts not available to be used within one year:	
Net asset with donor restrictions	(493,608)
Financial assets available to meet general expenses within one year	$ 6,137,952

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. The Organization has a $100,000 and a $350,000 line of credit available to meet cash flow needs.

NOTE 4: INVESTMENTS AND FAIR VALUE MEASUREMENT

Investments are comprised of the following at June 30, 2020.

	Cost	Fair Value
Exchange-Traded & Closed-End Funds	$ 22,442	$ 29,131
Mutual funds	296,788	308,392
Cash	29,814	29,814
Total	$ 349,044	$ 367,337

The following table summarizes the total investment income, expenses, and net realized and unrealized gains and losses for the year ended June 30, 2020.

Dividends and interest income	$ 7,251
Net realized gain	7,712
Net change in unrealized loss on investments reported at fair value	(9,536)
	5,427
Investment expenses	-
Investment return, net	$ 5,427

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

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

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

Level 2: Inputs to the valuation methodology include:

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

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

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

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, 2020.

	Level 1	Level 2	Level 3	Total
Exchange-Traded & Closed-End Funds	$ 29,131	$ -	$ -	$ 29,131
Mutual funds	308,392	-	-	308,392
Cash	29,814	-	-	29,814
Total investments	$ 367,337	$ -	$ -	$ 367,337

There have been no changes in the methodologies used at June 30, 2020.

NOTE 5: PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2020.

Land	$ 7,574,404
Buildings and improvements	10,631,833
Leasehold improvements	7,404,482
Office equipment, furniture and vehicles	521,667
Capital leases	272,076
	26,404,462
Less: Accumulated depreciation	3,012,905
	$ 23,391,557

NOTE 6: INTANGIBLES

The Organization's intangible assets consist of the following at June 30, 2020.

	Amount	Remaining Weighted Average Amortization
Favorable leases	$ 951,208	20.58 Years
Accumulated amortization	(760,032)	
	$ 191,176	

NOTE 7: LINE OF CREDIT

The Organization has a secured line of credit with Wells Fargo in the amount of $100,000 to be drawn down upon as needed. As of June 30, 2020, the outstanding balance was $100,000. The line of credit maturity date is March 10, 2021.

Baker Places has a secured revolving line of credit in the amount of $350,000 with Community Vision Capital & Consulting (formerly the Northern California Community Loan Fund). The line of credit maturity date is October 13, 2020. As of June 30, 2020, the outstanding balance was $350,000.

NOTE 8: LONG TERM DEBT

Long term debt consists of the following as of June 30, 2020.

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.	$ 329,202
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.	536,600
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
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 8: 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 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 December 2041.	110,000
Note payable to City and County of San Francisco, a municipal corporation, represented by the Mayor's Office of Housing and Community Development ("MOHCD") is collateralized by a deed of trust and accrues simple interest at 3% per annum. Principal and all accrued interest are due January 2050.	2,849,955
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. 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, but it was fully paid on February 1, 2021, with remaining accrued interest.	1,811,551
Unamortized Debt Discount	(508,112)
Unamortized Debt Issuance Costs	(59,836)
Total debt	6,611,187
Less: current portion	1,850,570
Long-term debt, net of current portion	$ 4,760,617

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, 2020, the total unamortized debt discount is $508,112.

NOTE 8: LONG TERM DEBT - (CONT'D)

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 year ended June 30, 2020, the Organization incurred debt issuance cost of $72,126, which are amortized over the life of the note payable. For the year ended June 30, 2020, the total amortization expense of $7,144 was captured as interest expense on the accompanying statement of activities.

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

2021	$ 1,850,570
2022	213,017
2023	806,234
2024	5,000
2025	5,000
Thereafter	4,299,314
	$ 7,179,135

NOTE 9: PAYCHECK PROTECTION PROGRAM LOAN

On May 2020, the Organization received loan proceeds in the amount of $3,129,909 under the Paycheck Protection Program ("PPP"). The PPP, established as part of the CARES Act, provides loans to qualifying organizations for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest may be eligible for forgiveness as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels.

The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for a period of ten months after the end of the covered period.

The Organization intends to use the proceeds for purposes consistent with the PPP. The Organization currently believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan and has plans in place to do everything necessary to meet the conditions for forgiveness of the loan, in whole or in part. Since, the Organization's covered payroll period was not completed as of June 30, 2020, the amount of the loan that will be forgiven or payable is uncertain; so as of June 30, 2020, the Organization has not disclosed the future maturities.

NOTE 10: CAPITAL LEASES

The Organization leases various copiers and computers, which provide for either title to pass to the Organization upon expiration of the lease period, or for which present value of future minimum lease payments exceed fair value of the equipment.

Capital lease obligations consisted of the following as of June 30, 2020.

Capital lease for copiers for the Organization's administrative office location payable in monthly installments of $2,679 through May 2024.	$ 125,893
Capital lease for computers payable in monthly installments of $7,221 through February 2022.	144,422
Capital lease obligations	270,315
Amounts representing interest	(41,386)
Present value of minimum lease payments	228,929
Current portion	(97,524)
Capital lease obligations, net of current portion	$ 131,405

The future annual minimum lease payments required under the capital leases as of June 30, 2020, are as follow.

2021	$ 118,796
2022	89,912
2023	32,143
2024	29,464
Amounts representing interest	(41,386)
	$ 228,929

NOTE 11: NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at June 30, 2020 amounting to $493,608 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, 2020. Additions to net assets with donor restrictions for the year ended June 30, 2020 were $564,300 and releases from net assets with donor restrictions for the year ended June 30, 2020 were $305,692.

NOTE 12: 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 $111,829 for the year ended June 30, 2020.

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, 2020 were $207,962.

NOTE 13: 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 year ended June 30, 2020, relating to long-term lease agreements is $1,647,079.

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

2021	$ 1,538,437
2022	1,587,520
2023	1,638,545
2024	1,691,348
2025	1,746,168
Thereafter	10,155,347
	$18,357,365

NOTE 14: 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, 2020, was $546,709, which has not been recorded.

In the ordinary course of business, the Organization may become involved in various legal proceedings. Baker Places is a defendant in a wrongful termination of an employment lawsuit. As of June 30, 2020, the Organization accrued $285,500 related to these lawsuits.

NOTE 15: 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 16: SUBSEQUENT EVENTS

The Organization's management has reviewed the results of operations for the period of time from its year ended June 30, 2020 through March 25, 2022, 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 items disclosed below:

1. Subsequent to the fiscal year-end, the Small Business administration (SBA) had forgiven $2,671,625 of the PPP loans. For the remaining $458,284, the Organization renegotiated the terms with the lender on March 3, 2021. Based on the new terms, the Organization 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.
2. In December 2019, the Organization drew the remaining $95,205 available under the $1,900,000 note payable agreement with Northern California Community Loan Fund. On February 1, 2021, the Organization paid the loan, including the accrued interest. See Note 8 Long Term Debt for further information.
3. In February 2021, Bakers Places entered a loan modification agreement with Community Vision Capital & Consulting (formerly the Northern California Community Loan Fund). The agreement extended the maturity of the note to January 25, 2022.
4. Subsequent to the fiscal year-end, the Organization was involved in various legal proceedings related to wrongful termination of employment, which resulted in settlement of $154,130 to the claimants.

NOTE 16: SUBSEQUENT EVENTS - (CONT'D)

5. 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, the second largest HIV/AIDS housing facility in California, into a transitional residential care facility (TRCF) beginning October 1. 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.

SUPPLEMENTAL INFORMATION

PRC

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2020

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Grant Period	Federal CFDA Number	Grant Identification Number	Federal Expenditures
US Department of Health and Human Services				
Direct Programs:				
Health Resources & Services Administration	9/30/17-9/29/20	93.928	H97HA31434	$ 255,217
Pass-through the City and County of San Francisco:				
HIV Emergency Relief Formula Grant	3/1/19-2/29/20	93.914	DPHC16000456-02	675,221
HIV Emergency Relief Formula Grant	10/1/19-2/29/20	93.914	DPHC16000456-02	159,837
HIV Emergency Relief Formula Grant	3/1/20-2/28/21	93.914	DPHC16000456-02	163,564
HIV Emergency Relief Formula Grant	4/1/20-3/31/21	93.914	DPHC16000456-02	38,277
HIV Emergency Relief Project Grants	3/1/19-2/29/20	93.914	BPHM14000007	388,903
HIV Emergency Relief Project Grants	3/1/20-2/28/21	93.914	BPHM14000007	170,672
Subtotal 93.914				1,596,474
HIV Emergency Relief Formula Grant	9/30/18-9/29/19	93.917	DPHC16000456-02	141,461
HIV Emergency Relief Formula Grant	4/1/19-3/31/20	93.917	DPHC16000456-02	138,708
Subtotal 93.917				280,169
Total US Department of Health and Human Services				**2,131,860**
US Department of Housing and Urban Development				
Pass-through the City and County of San Francisco:				
Community Development Block Grants/Entitlement Grants	7/1/19-6/30/20	14.218	B16MC060016	100,000
Community Development Block Grants/Entitlement Grants	7/1/19-6/30/20	14.218	B17MC060016	99,942
Subtotal 14.218				199,942
Total US Department of Housing and Urban Development				**199,942**
US Department of Education				
Pass-through the State of California:				
State Vocational Rehabilitation Services	7/1/19-6/30/20	84.126A	29859	90,315
Total US Department of Education				**90,315**
Total expenditures of federal awards				**$ 2,422,117**

See the accompanying notes to Schedule of Expenditures of Federal Awards

PRC
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2020

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, 2020. 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 - SUBRECIPIENTS

PRC did not provide any federal awards to subrecipients for the fiscal year ended 2020.

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 (the Organization), which comprise the consolidated statement of financial position as of June 30, 2020, and the related consolidated statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 25, 2022.

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 2020-001 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 2020-002 and 2020-003 to be significant deficiencies.

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 2020-002 and 2020-003.

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
March 25, 2022

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

We have audited PRC's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of PRC's major federal programs for the year ended June 30, 2020. 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, 2020.

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 2020-002 and 2020-003. 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 2020-002 and 2020-003 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.

Harshwal & Company LLP

Oakland, California
March 25, 2022

PRC
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2020

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes
• 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):

CFDA Number(s)	Name of Federal Program or Cluster
93.914	HIV Emergency Relief Formula Grant

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

2020-001 - Timely and Accurate Close of the Accounting Period (Material Weakness)

Criteria: Management of the Organization is responsible for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting principles (GAAP). This includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

Condition: Though improvements have been made in reconciling the general ledger accounts to the supporting schedules, the Organization still lacks internal control procedures to ensure timely preparation of financial statements. In particular, the consolidated TB provided initially was not updated with respect to fixed assets, intangibles, long-term debt, and net assets, which resulted in multiple audit adjustments and delays. Further, the Organization does not have a procedure to ensure journal entries are reviewed and approved prior to being entered into the general ledger system by accounting staff.

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

Effect: The Organization could not timely provide a reconciled, consolidated trial balance and consolidated statement of functional expense schedule.

Without a timely review of journal entries and closure of general ledger reporting periods, the opportunity for errors in the general ledger and misstatement in financial reporting increases significantly.

Repeat finding: Yes

Recommendation: Management should review and update its monthly and year-end closing procedures to ensure accurate and timely preparation of consolidated financial statements. Develop effective policies and procedures that ensure the proper preparation of journal entry forms and strengthen controls over the journal entry review and approval process to ensure that all journal entries are complete, accurate, properly supported and approved prior to posting in the general ledger.

Views of Responsible Officials: Due to staff turnover, the books were not properly closed during the fiscal year ended June 30, 2020. 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 several accounting 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.
- Will be working on 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.

SECTION II - FINANCIAL STATEMENT FINDINGS - (CONT'D)

Finding 2020-002: No Time Studies, Proper Time Tracking, Time Allocation, Time Reporting and Segregation of Duties (Significant Deficiency)

Criteria: Strong internal controls mandate that proper time tracking, reporting, and segregation of duties are observed in the payroll processing, and if necessary, there should be sufficient mitigating controls to prevent unauthorized transactions from occurring in the payroll processing.

Condition: Walkthrough over the payroll process revealed inconsistent approval sign-offs as prescribed by the Organization's policy. The Organization's policy requires that the employee pay rates to be authorized by the Chief Executive Officer (CEO); however, no proper documentation and sign-offs were evident on the supporting documentation. Further, we noted that the Organization failed to perform semi-annual time studies and that timecards could not be located. In addition, non-exempt/hourly employees are compensated on annual straight lined hours. However, depending on the number of workdays per pay period, the hours worked and paid are either over or understated.

Effect: The Organization did not maintain the appropriate documentation that agreed to amounts paid to employees and the required payroll supporting documentation. Further, not following proper segregation of duties over the approval of changes to the employee pay rates can result in unauthorized transactions that went undetected.

Cause: Due to turnover with the Organization, the appropriate segregation of duties in ensuring that employee pay rate changes are reviewed and approved by the Executive Director was not evident. Further, the Organization did not follow its policies and procedures regarding the retention of payroll supporting documentation.

Repeat finding: Yes

Recommendation: We recommend the Organization implement policies and procedures to ensure time and effort reports are properly completed, reviewed, and maintained. Further, the Organization should revise its policies and procedures surrounding payroll processing to ensure proper segregation of duties is observed over approval of employee pay rate changes.

Views of Responsible Officials: Due to staff turnover, existing timekeeping and payroll processes were inadequately maintained. Management has taken the following steps to prevent a recurrence of this issue:

- Management will further 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 revised the payroll process to ensure that hourly/nonexempt staff are paid based on hours worked.
- Management will implement controls to ensure all pay rates are supported and approved and appropriately updated within the payroll system.

SECTION II - FINANCIAL STATEMENT FINDINGS - (CONT'D)

2020-003 - Allocated Payroll Expenses Charged to Contracts were Higher than Incurred (Significant Deficiency)

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.

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

Effect: Payroll expenses were incorrectly charged to contracts.

Repeat finding: Yes

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 will implement a comprehensive payroll allocation process that will ensure that allocations to contracts and grants accurately reflect staff time worked.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2020-002 - Activities Allowed or Unallowed and Allowable Costs/Cost Principles: No proper employee pay rate documentation, No Time Studies, Proper Time Tracking, Time Allocation and Time Reporting for Payroll Purposes took place (Significant Deficiency)

Federal program information:

Funding agency:	U.S. Department of Human Health and Services
Title:	HIV Emergency Relief Formula Grant
CFDA number:	93.914

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.

Condition: We noted that the Organization did not have controls in place to ensure that all payroll expenditures were properly supported per the Organization's policies and procedures. For four of the 20 payroll samples tested, the Organization did not provide a personal action form that supported the authorized pay rate of the employee. In addition, for six of the employee samples tested, the rates on the personal action forms do not match with the actual rate paid to the employee, and for three of the samples tested, approval was missing on the personal action form. Further, we noted that the Organization failed to perform time studies, that time cards could not be located, and non-exempt/hourly employees are compensated on annual straight-lined hours.

Questioned Costs: The calculation of projected likely questioned costs was undeterminable due to errors in expenditure populations and lack of documentation available for samples tested.

Cause: Payroll records did not agree to amounts paid to employees. Further, the Organization did not follow its policies and procedures regarding the retention of payroll supporting documentation. In addition, the Organization had a turnover in its accounting and finance, as well as HR department.

Effect: The Organization did not maintain the appropriate documentation that agreed to amounts paid to employees and the required payroll supporting documentation. Therefore, the Organization may not be able to demonstrate that the costs charged to federal programs are allowable.

Repeat finding: Yes

Recommendation: The Organization should implement effective policies and procedures to ensure that salaries and wages reflect actual time spent working on the federal programs, that all payroll disbursements are in agreement with the hours documented on properly authorized timesheets and supporting records, and that rates employees are paid are documented on retained authorized personnel action forms.

Views of Responsible Officials: Due to staff turnover, existing timekeeping and payroll processes were inadequately maintained. Management has taken the following steps to prevent a recurrence of this issue:

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

- Management will further 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 revised the payroll process to ensure that hourly/nonexempt staff are paid based on hours worked.
- Management will implement controls to ensure all pay rates are supported and approved and appropriately updated within the payroll system.

2020-003 - Cash Management (Significant Deficiency)

Federal program information:

Funding agency:	U.S. Department of Human Health and Services
Title:	HIV Emergency Relief Formula Grant
CFDA number:	93.914

Criteria: 2 CFR Part 200 Cash Management requires that program costs must be paid for by the Organization before reimbursement is requested from the Federal government.

Condition: Supporting documentation was inadequate to determine that federal reimbursement was requested before the expenditures were incurred.

Cause: The Organization is not drawing down federal funds according to actual expenditures supporting backups but rather based on the approved budget included in the grant agreement.

Effect: Excess funds could be drawn down and not expended.

Questioned Costs: None

Repeat finding: No

Recommendation: To help ensure compliance with cash management requirements for its federal awards, the Organization should implement policies and procedure to track expenditures by a fund and ensure drawdowns are made based upon actual cost incurred instead of budgets.

Views of Responsible Officials: Management is working to track expenditures by fund more accurately to ensure drawdowns are made based upon actual costs incurred. For payroll expenses, through the use of manual tracking of time by salaried employees and electronic timecards by non-salaried employees, the fund level data will be input into the payroll system and booked to the general ledger on a fund level for ease of pulling costs by fund for invoicing of federal funds. For other expenses, there is a more robust system of fund specific allocations being implemented for more accurate coding by fund within the general ledger to in turn, use for invoicing of federal funds.

PRC

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

FOR THE YEAR ENDED JUNE 30, 2020

FINDING	PRIOR YEAR AUDIT FINDINGS	STATUS
Financial Statement Findings		
2019-001	Timely and Accurate Close of the Accounting Period (Material Weakness)	Repeated (See finding 2020-001)
2019-002	No Time Studies, Proper Time Tracking, Time Allocation and Time Reporting for Payroll Purposes took place (Significant Deficiency)	Repeated (See finding 2020-002)
2019-003	Allocated Payroll Expenses Charged to Contracts were Higher than Incurred (Significant Deficiency)	Repeated (See finding 2020-003)
2019-004	Improve Record Maintenance (Significant Deficiency)	Partially resolved (See finding 2020-002)
2019-005	Achieve Proper Cut-Off and Classification (Significant Deficiency)	Resolved
Federal Award Findings		
2019-002	Allowable Costs/Cost Principles: No proper employee pay rate documentation, No Time Studies, Proper Time Tracking, Time Allocation and Time Reporting for Payroll Purposes took place (Significant Deficiency)	Repeated (See finding 2020-002)

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March 25, 2022
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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, 2020.

Response and Corrective Action Plan

1. **Finding 2020-002 (Prior Year Finding 2019-002) - Activities Allowed or Unallowed and Allowable Costs/Cost Principles: No proper employee pay rate documentation, No Time Studies, Proper Time Tracking, Time Allocation and Time Reporting for Payroll Purposes took place (Significant Deficiency)**

Response and Corrective Action Plan:

Due to staff turnover, existing timekeeping and payroll processes were inadequately maintained. Management has taken the following steps to prevent a recurrence of this issue:

• Management will implement controls to ensure all pay rates are supported and approved and appropriately updated within the payroll system.
• Management will further 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 revised the payroll process to ensure that hourly/nonexempt staff are paid based on hours worked.

Anticipated completion date: December 31, 2022
Responsible person: Elaine Clark, CFO

2. **Finding 2020-003 - Cash Management (Significant Deficiency)**

Response and Corrective Action Plan:

Management is working to track expenditures by fund more accurately to ensure drawdowns are made based upon actual costs incurred. For payroll expenses, through the use of manual tracking of time by salaried employees and electronic timecards by non-salaried employees, the fund level data will be input into the payroll system and booked to the general ledger on a fund level for ease of pulling costs by fund for invoicing of federal funds. For other expenses, there is a more robust system of fund specific allocations being implemented for more accurate coding by fund within the general ledger to in turn, use for invoicing of federal funds.

Anticipated completion date: December 31, 2022

Responsible person: Elaine Clark, CFO

Signature: ______________________________, Brett Andrews

Title: Chief Executive Officer