# BAKER PLACES, INC.

## INDEPENDENT AUDITOR'S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE FISCAL YEAR ENDED JUNE 30, 2023

HARSHWAL® & COMPANY LLP

CERTIFIED PUBLIC ACCOUNTANTS

BAKER PLACES, INC. AND AFFILIATE

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HARSHWAL® & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Baker Places, Inc.
San Francisco, California

## Report on the Audit of the Consolidated Financial Statements

### *Opinion*

We have audited the accompanying consolidated financial statements of Baker Places, Inc. and Affiliate (a California not-for-profit corporation), which comprise the consolidated statement of financial position as of June 30, 2023, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Baker Places, Inc. and Affiliate as of June 30, 2023, 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.

### *Basis for Opinions*

We conducted our audit 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 the Baker Places, Inc. and Affiliate and to meet our other ethical responsibilities in accordance with the 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 audit opinion.

### *Change in Accounting Principle*

As discussed in Note 2 to the consolidated financial statements, Baker Places, Inc. and Affiliate adopted Accounting Standards Update (ASU) 2016-02, Leases, and related amendments ("Topic 842") effective July 1, 2022. Our opinion is not modified with respect to this matter.

### *Responsibilities of Management for the Consolidated Financial Statements*

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

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

## *Auditor's Responsibilities for the Audit of the Consolidated 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 the Baker Places, Inc. and Affiliate's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Baker Places, Inc. and Affiliate'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.

## *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary schedule of operating revenues, schedule of operating expenses, schedule of operating cash flows and surplus cash, and schedule of replacement reserve and operating reserve activity (supplemental schedules) are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. 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 GAAS. In our opinion, such 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 April 01, 2024, on our consideration of the Baker Places, Inc. and Affiliate'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 the Baker Places, Inc. and Affiliate'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 the Baker Places, Inc. and Affiliate's internal control over financial reporting and compliance.

Harshwal & Company LLP

Oakland, California
April 01, 2024

# CONSOLIDATED FINANCIAL STATEMENTS

BAKER PLACES, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2023

| | |
|---|---|
| **ASSETS** | |
| Current assets | |
| Cash and cash equivalents | $ 1,303,980 |
| Accounts and grants receivable, net | 8,322,328 |
| Prepaid expenses | 123,249 |
| Restricted cash | 196,227 |
| Total current assets | 9,945,784 |
| Deposits | 56,802 |
| Property and equipment, net | 5,170,163 |
| Operating lease right-of-use assets, net | 4,019,471 |
| Total assets | $ 19,192,220 |
| **LIABILITIES AND NET ASSETS** | |
| Current liabilities | |
| Accounts payable and accrued expenses | $ 1,861,215 |
| Paycheck Protection Program loan, current portion | 156,426 |
| Finance lease liabilities, current portion | 19,773 |
| Operating lease liabilities, current portion | 324,254 |
| Current portion of long-term debt | 766,328 |
| Total current liabilities | 3,127,996 |
| Accrued interest | 1,333,220 |
| Paycheck Protection Program loan, noncurrent portion | 117,024 |
| Finance leases, net of current portion | 15,491 |
| Operating lease liabilities, net of current portion | 4,432,385 |
| Long-term debt, net of current portion | 13,379,370 |
| Total liabilities | 22,405,486 |
| NET ASSETS | |
| Without donor restrictions | (3,213,266) |
| Total liabilities and net assets | $ 19,192,220 |

The accompanying notes are an integral part of these financial statements

BAKER PLACES, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2023

| | Without Donor Restrictions |
|---|---|
| *REVENUE, GAINS, AND OTHER SUPPORT:* | |
| Government awards | $ 20,104,082 |
| Client fees | 172,220 |
| Client rent | 307,536 |
| Other | 3,971,779 |
| Total revenue, gains, and other support | 24,555,617 |
| *EXPENSES AND LOSSES:* | |
| Program services | 16,943,411 |
| Supporting services | 3,492,677 |
| Total expenses and losses | 20,436,088 |
| Change in net assets | 4,119,529 |
| Net assets at beginning of year | (7,332,795) |
| Net assets at end of year | $ (3,213,266) |

The accompanying notes are an integral part of these financial statements

## BAKER PLACES, INC. AND AFFILIATE
## CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
## FOR THE YEAR ENDED JUNE 30, 2023

| | Program Services | Supporting Services | Total |
|---|---|---|---|
| Salaries and benefits | $ 11,721,533 | $ 1,159,559 | $ 12,881,092 |
| Occupancy and rent | 2,777,206 | 28,967 | 2,806,173 |
| Grants and contract | 480,115 | 570 | 480,685 |
| Fee for service | 804,582 | 2,115,262 | 2,919,844 |
| Office | 559,964 | 21,129 | 581,093 |
| Depreciation | 164,991 | - | 164,991 |
| Insurance | 258,132 | 32,604 | 290,736 |
| Interest | 71,572 | 5,544 | 77,116 |
| Miscellaneous | 95,805 | 124,282 | 220,087 |
| Travel and meetings | 9,511 | 1,466 | 10,977 |
| Loss on disposal | - | 2,479 | 2,479 |
| Advertising and promotion | - | 815 | 815 |
| Total | $ 16,943,411 | $ 3,492,677 | $ 20,436,088 |

The accompanying notes are an integral part of these financial statements

# BAKER PLACES, INC. AND AFFILIATE

## CONSOLIDATED STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED JUNE 30, 2023

| | |
|---|---|
| *Cash flows from operating activities:* | |
| Change in net assets | $ 4,119,529 |
| Adjustments to reconcile change in net assets to net cash provided by/(used in) operating activities: | |
| Depreciation | 164,991 |
| Amortization of loan costs | 1,184 |
| Changes in operating assets and liabilities: | |
| Accounts and grants receivable | (5,894,136) |
| Prepaid expenses | (39,958) |
| Restricted cash | (36,176) |
| Accounts payable and accrued expenses | (1,039,948) |
| Accrued interest | 163,350 |
| Lease liability, finance lease | (61,062) |
| Operating Lease payable | 737,168 |
| Deferred rent | (771,525) |
| Deferred revenue | (1,891,320) |
| *Net cash used in operating activities* | (4,547,903) |
| *Cash flows from investing activities:* | |
| Purchase of property and equipment | (435,268) |
| *Net cash used in investing activities* | (435,268) |
| *Cash flows from financing activities:* | |
| Repayments of related party loan | (700,000) |
| Proceeds from long term debt | 6,932,473 |
| Repayments of long term debt | (366,788) |
| *Net cash provided by financing activities* | 5,865,685 |
| **Net increase in cash and cash equivalents** | 882,514 |
| **Cash and cash equivalents, beginning of year** | 421,466 |
| **Cash and cash equivalents, end of year** | $ 1,303,980 |
| Supplemental disclosures: | |
| Cash paid for interest | $ 7,023 |
| Composition of cash and cash equivalents, end of year: | |
| Cash and cash equivalents | 1,303,980 |
| Restricted cash - Maintenance costs of specific programs | 196,227 |
| | $ 1,500,207 |

## NOTE 1 - NATURE OF ACTIVITIES

Baker Places, Inc. ("Baker Places") is a 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 founded in 1964, seeded with funds from Glide Memorial Methodist Church, with the goal of providing residential treatment services for adults recently released from Napa State Hospital. Baker Places' first site was located at 730 Baker Street, and is the origin of its name. In 1969, Baker Places incorporated as a non-profit, tax-exempt California corporation and began expanding services through contracts with the San Francisco Department of Public Health.

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 Baker Places' programs. Services are aimed at being accessible, flexible, consumer-driven and culturally competent.

Baker Places Grove Street LLC, (“the Affiliate”) is a private nonprofit corporation organized under the laws of the State of California on February 13, 2020, and is controlled by the Baker Places. Baker Places 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 Affiliate is organized and operated exclusively for charitable purposes as specified in section 214 of the California Revenue and Taxation Code (“RT Code”).

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

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation** - The consolidated financial statements are presented on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions according to the following two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. There were no net assets with donor restrictions at June 30, 2023.

**Principles of Consolidation** - Baker Places entered into an Agreement of Affiliation with Baker Places Grove Street LLC. Under this Agreement of Affiliation, Baker Places is the sole corporate member of Baker Places Grove Street LLC, while both parties retain its separate corporate identity. Pursuant to the membership rights granted to Baker Places, Baker Places appointed directors who will serve as Board of Directors to Baker Places Grove Street LLC. The consolidated financial statements include the accounts of Baker Places and Baker Places Grove Street LLC (hereafter collectively referred to as "the Organization"). All significant intercompany accounts and transactions have been eliminated in consolidation.

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

**Use of Estimates** - The preparation of 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 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 consolidated statement of financial position, and changes in fair value are reported as investment return in the consolidated 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 consolidated 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, net** - 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. Management has established a capitalization threshold of $5,000 per item with useful lives greater than one year. 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.

**Accounts and Grants Receivable, net** - The Organization reviews accounts and grants receivable on a monthly basis to determine if any receivables will be uncollectible. The Organization establishes an allowance for doubtful accounts for any balance determined to be uncollectible. At June 30, 2023, no allowance for doubtful accounts had been recorded as all amounts were considered collectible.

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

## 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. Accordingly, certain costs have been allocated among the program services and supporting services. 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 | Square footage |
| Grants and contract | Time and effort |
| Fee for service | Time and effort |
| Office | Time and effort |
| Depreciation | Square footage |
| Insurance | Time and effort |
| Miscellaneous | Time and effort |
| Travel and meetings | Time and effort |

**Taxes -** The Organization is exempt from Federal and State income taxes under section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the Revenue and Taxation Code of California. Accordingly, there is no provision for income taxes. The Organization follows Accounting Standards Codification (ASC) Topic 740-10-25, Income Taxes. This standard clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This standard provides that the tax effects from an uncertain tax position can be recognized in the consolidated financial statements only if the position is “more-likely-than-not” to be sustained if the position were to be challenged by a taxing authority. The standard also provides guidance on measurement, classification, interest and penalties, and disclosure. The Organization is no longer subject to examination by taxing authorities for years before 2017. The Organization has processes presently in place to ensure the maintenance of its tax-exempt status and to identify and evaluate other matters that may be considered tax positions. The Organization has determined there is no impact on the accompanying consolidated financial statements related to this standard.

**Recently Adopted Accounting Standards -** On July 1, 2022, the Organizations adopted the new lease accounting standard issued by the Financial Accounting Standards Board (FASB) and codified in the Accounting Standards Codification (ASC) as Topic 842 (ASC 842). The lease standard in ASC 842 intended to improve financial reporting about leasing transactions by requiring entities to recognize on the statements of financial position the assets and liabilities for the rights and obligations created by those leases, and to provide additional disclosures regarding the leases. Leases with terms of twelve months or less are not required to be reflected on an entity’s statements of financial position.

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

The adoption of ASC 842 had a material impact on the statements of financial position but did not have a significant impact on the statements of activities and changes in net assets and the statements of cash flows. On July 1, 2022, the Organization's total assets and total liabilities increased by $4,396,605 as a result of ASC 842. The most significant impact was the recognition of right-of-use (ROU) assets under operating leases and operating lease liabilities for operating leases.

The Organizations elected the available practical expedients to account for its existing capital leases and operating leases as finance leases and operating leases, respectively, under the new guidance, without reassessing (a) whether any expired or existing contracts contain a lease, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs, if any, before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

## NOTE 3 - AVAILABILITY AND LIQUIDITY

As of June 30, 2023, the Organization had the following financial assets that could readily be made available within one year to fund general expenditures without limitations:

| | |
|---|---|
| Cash and cash equivalents | $ 1,500,207 |
| Accounts and grants receivable, net | 8,322,328 |
| Less; amounts unavailable for general expenditures within one year: | |
| Restricted cash | (196,227) |
| Financial assets available to meet general expenditures within one year | $ 9,626,308 |

The Organization's goal is generally to maintain financial assets to meet 30 to 60 days of operating expenses. As part of its liquidity plan, excess cash is invested in short-term investments, such as money market accounts. To meet certain short term program related operating obligations, from time to time the Organization receives cash advances under certain grant agreements.

## NOTE 4 - ACCOUNTS AND GRANTS RECEIVABLE

Accounts and grants receivable consist of the following at June 30, 2023:

| | |
|---|---|
| Employee Retention Credit | $ 3,727,026 |
| City and County of San Francisco | 3,246,472 |
| PRC* | 817,891 |
| SAMSHA | 84,600 |
| Other | 446,339 |
| | $ 8,322,328 |

* Related party receivable (see Note 13).

## NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2023:

| | |
|---|---|
| Land | $ 3,043,691 |
| Buildings and improvements | 7,641,886 |
| Leasehold improvements | 126,905 |
| Office equipment, furniture and vehicles | 269,824 |
| | 11,082,306 |
| Less: Accumulated depreciation | 5,912,143 |
| | $ 5,170,163 |

Depreciation expense for the year ended June 30, 2023, was $164,991.

## NOTE 6 - LONG TERM DEBT

Long term debt consisted of the following as of June 30, 2023:

| | |
|---|---|
| **Mortgage Debt** | |
| Note payable to Northeast Bank collateralized by a first deed of trust on building and land and is payable in monthly installments of $2,382, which includes interest at the Prime Rate plus 0.5% per annum, adjusted monthly with a minimum rate of 8.75%, through May 15, 2024. | $ 291,379 |
| Note payable to Northeast Bank collateralized by a first deed of trust on building and land and is payable in monthly installments of $3,883, which includes interest at the Prime Rate plus 0.5% per annum, adjusted monthly with a minimum rate of 8.75%, through May 15, 2024. | 474,949 |
| **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.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 6 - 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 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. | 3,903,179 |
| The total debt owed by the Organization to DPH consists of advance payment of $6,546,363 and $1,304,352 overpayments received from the San Francisco Department of Public Health (DPH) from fiscal years 2008 through 2010 and 2016 under the Mental Health program which was classified as deferred revenue. In May 2023, DPH to restructure the $7.85 million debt. 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. | 7,850,715 |
| Unamortized loan costs | (26,351) |
| | 14,145,698 |
| Less: current portion | 766,328 |
| Long-term debt, net of current portion | $ 13,379,370 |

*Loan Costs* - 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 $29,502, which are amortized over the life of the note payable.

Maturities of long term debt future payments are as follows:

| | |
|---|---|
| 2024 | $ 766,328 |
| 2025 | 443,190 |
| 2026 | 443,190 |
| 2027 | 443,190 |
| 2028 | 443,190 |
| Thereafter | 11,632,961 |
| | $ 14,172,049 |

## NOTE 7 - PAYCHECK PROTECTION PROGRAM LOAN

In May 2020, the Organization 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 SBA had forgiven $1,984,016 of the PPP loan, and renegotiated the terms for the remaining $458,284. As per the new agreement, 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. The forgiven loan amount was recognized gain in the accompanying consolidated statement of activities in the fiscal year ending June 30, 2022.

Loan maturities for each of the five years following June 30, 2023, are as follows:

| | |
|---|---|
| 2024 | $ 156,426 |
| 2025 | 117,024 |
| 2026 | - |
| 2027 | - |
| 2028 | - |
| Thereafter | - |
| | $ 273,450 |

## NOTE 8 - LEASES

The Organizations recognize right-of-use (ROU) assets and lease liabilities for leases with terms greater than 12 months or leases that contain a purchase option that is reasonably certain to be exercised. Leases are classified as either finance or operating leases. This classification dictates whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease.

The Organizations have operating leases for office and residential service buildings used in operations, and vehicles. The Organization has finance leases for various equipment.

The Organization's ROU assets and lease liabilities are recognized on the lease commencement date in an amount that represents the present value of future lease payments over the lease term. The Organizations utilize its risk free rate to the lease term as the discount rate for its leases unless the Organizations can specifically determine the lessor's implicit rate. Certain lease contracts contain non-lease components such as maintenance and utilities. The Organizations have made a policy election to not separate the lease and non-lease components, and thus recognize a single lease component for all of its right-of-use assets and lease liabilities. The operating lease ROU asset also includes any lease payments made and excludes lease incentives, if any.

Short-term leases (leases with an initial term of 12 months or less or leases that are cancelable by the lessee and lessor without significant penalties) are not expensed when incurred.

In evaluating contracts to determine if they qualify as a lease, the Organizations consider factors such as if it has obtained substantially all of the rights to the underlying asset through exclusivity, if the

## NOTE 8 - LEASES - (CONT'D)

Organizations can direct the use of the asset by making decisions about how and for what purpose the asset will be used and if the lessor has substantive substitution rights. Furthermore, the Organizations assess whether it is reasonably certain to exercise options to extend or terminate a lease considering all relevant factors that create economic incentive to exercise such options, including asset, contract, market, and entity-based factors.

These evaluations may require significant judgment. Operating lease right-of-use assets (ROU) and lease liabilities are recognized at the lease commencement date based on the present value of the lease payments over the lease term. The ROU assets resulting from operating leases are disclosed separately as right-of-use asset - operating lease and the related liabilities are included in lease liability - operating leases in the Statements of Financial Position. At lease commencement, lease liabilities are recognized based on the present value of the remaining lease payments and discounted using the risk free rate. Operating lease cost is recognized on a straight-line basis over the lease term as occupancy in the accompanying Statements of Functional Expenses. Lease and non-lease components of office lease agreements are accounted as a single component. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option. The Organization determines if an arrangement is a lease at inception. All leases are recorded on the Statements of Financial Position except for leases with an initial term less than 12 months for which the Organization made the short-term lease election.

The Organization’s right-of-use assets and lease liabilities as of and for the year ended June 30, 2023 is as follows:

| | |
|---|---|
| **Right-of-use assets** | |
| Finance lease assets | $ 34,411 |
| Operating lease assets | 4,019,471 |
| Total right-of-use assets | $ 4,053,882 |
| **Lease liabilities** | |
| Finance lease liabilities, current | $ 19,773 |
| Finance lease liabilities, noncurrent | 15,490 |
| Total finance lease liabilities | $ 35,263 |
| Operating lease liabilities, current | $ 324,254 |
| Operating lease liabilities, noncurrent | 4,432,385 |
| Total operating lease liabilities | $ 4,756,639 |

The components of lease expense for the year ended June 30, 2023 were as follows:

| | |
|---|---|
| Finance lease cost | |
| Amortization expense | $ 19,663 |
| Interest on lease liabilities | 2,189 |
| Total finance lease cost | $ 21,852 |
| Operating lease costs | $ 530,316 |

## NOTE 8 - LEASES - (CONT'D)

Other information related to leases as of June 30, 2023 was as follows:

| | |
|---|---|
| Supplemental cash flow information: | |
| Cash paid for amounts included in the measurement of lease liabilities: | |
| Operating cash flows from finance leases | $ 20,999 |
| Operating cash flow from operating leases | $ 451,467 |
| ROU assets obtained in exchange for lease obligations: | |
| Operating leases | $ 5,054,923 |
| Weighted average remaining lease term: | |
| Finance leases | 1.75 years |
| Operating leases | 13.36 years |
| Weighted average discount rate: | |
| Finance leases | 5.00 % |
| Operating leases | 3.16 % |

(1) Included in lease expenses in the consolidated statements of activities.

Maturities of lease liabilities as of June 30, 2023, are as follows:

| Year Ending June 30, 2023 | Finance Leases | Operating Leases |
|---|---|---|
| 2024 | $ 20,999 | $ 468,201 |
| 2025 | 15,750 | 465,936 |
| 2026 | - | 473,347 |
| 2027 | - | 491,551 |
| 2028 | - | 510,693 |
| Thereafter | - | 3,602,340 |
| Total | $ 36,749 | $ 6,012,068 |
| Less: amount representing interest | 1,486 | 1,255,429 |
| Present value of lease liabilities | $ 35,263 | $ 4,756,639 |

## NOTE 9 - PENSION PLAN

The Organization maintains a 403(b) defined contribution plan for all employees who have completed six months of service. The Organization 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 expense for the year ended June 30, 2023, was $307,019.

## NOTE 10 - CONTINGENCIES

**Forgivable Debt -** The Organization 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 the Organization continues to provide services to persons with AIDS and affordable housing to low income individuals. If the Organization 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 the Organization will not continue to provide these services is remote.

**Grants and Contracts -** The Organization's grants and contracts are subject to inspection and audit by the appropriate governmental funding agency. The purpose of such audits is to determine whether program funds were used in accordance with their respective guidelines and regulations. While management believes program funds were utilized in accordance with program guidelines, it is possible that funded program costs could ultimately be disallowed. The ultimate liability, if any, which may result from these governmental audits cannot be reasonably estimated and, accordingly, the Organization has recorded no additional provisions for the possible disallowance of program costs on its financial statements.

**Contingencies -** The Organization, during the normal course of operating its business, may be subject to various lawsuits, billing investigations, reviews, and government audits. The Organization defends itself vigorously against any such claims. Management believes that losses resulting from these matters, if any, will not have a material adverse effect on the Organization's statements of financial position or statement of activities and changes in net assets.

## NOTE 11 - RELATED PARTY TRANSACTIONS

PRC provides management services to the Organization. For the year ended June 30, 2023, total management services incurred were $1,969,056.

At June 30, 2023, the Organization recorded accounts receivable of $817,891 from related party activity with PRC.

In January 2019, the Board of Directors approved PRC to use one of the Organization's owned properties as collateral for obtaining a loan to finance PRC's office relocation and related leasehold improvement project. In April 2019, PRC entered into a $1,900,000 loan agreement with Northern California Community Loan Fund, collateralized by one of the Organization's properties. Under the note payable agreement, PRC 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. As of June 30, 2023, the outstanding balance was $1,227,238.

## NOTE 12 - CONCENTRATIONS

The Organization receives a portion of its support and revenue from grantor agencies. Certain awards amounts 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 13 - EMPLOYEE RETENTION CREDIT

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), was enacted in response to the COVID-19 pandemic. This act, among other things, provides fully refundable tax credits (known as the employee retention credit, or “ERC”) against the employer share of federal payroll taxes for employers who meet certain criteria. Subsequent legislation has expanded the eligibility criteria and availability of the ERC through September 30, 2021.

The Organization has elected to account for the ERC as a government grant using accounting guidance provided by Accounting Standards Codification 958-605: Not-for-Profit Entities - Revenue Recognition. Accordingly, a receivable has been recorded for $$3,727,026 on the consolidated statement of financial position for the amount the Organization expects to receive for the year-ended June 30, 2023. That amount has been included as other income on the statement of activities for the year-ended June 30, 2023. On July 17, 2023, the Organization received the full amount of the receivable recognized in the fiscal year 2022-23.

## NOTE 14 - SUBSEQUENT EVENTS

The Organization's management has reviewed the results of operations for the period of time from its year ended June 30, 2023 through April 1, 2024, 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 item disclosed below:

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. On June 15, 2023, the Claimant filed a lawsuit in State Court. 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.

SUPPLEMENTAL INFORMATION

## BAKER PLACES, INC. AND AFFILIATE
## SCHEDULE OF OPERATING REVENUES
## FOR THE YEAR ENDED JUNE 30, 2023

| | 214 Dolores | 1761 Page St. | Ferguson | Odyssey House | Total |
|---|---|---|---|---|---|
| Rent revenue | | | | | |
| Gross potential tenant rents | $ 83,216 | $ 30,018 | $ 10,785 | $ 49,682 | $ 173,701 |
| Total rent revenue | 83,216 | 30,018 | 10,785 | 49,682 | 173,701 |
| Other revenue | | | | | |
| Supportive services | 157,941 | 276,787 | 1,146,353 | 806,465 | 2,387,546 |
| Total other revenues | 157,941 | 276,787 | 1,146,353 | 806,465 | 2,387,546 |
| Total operating revenue | $ 241,157 | $ 306,805 | $ 1,157,138 | $ 856,147 | $ 2,561,247 |

## BAKER PLACES, INC. AND AFFILIATE
## SCHEDULE OF OPERATING EXPENSES
## FOR THE YEAR ENDED JUNE 30, 2023

| | 214 Dolores | 1761 Page St. | Ferguson | Odyssey House | Total |
|---|---|---|---|---|---|
| Salaries and benefits | | | | | |
| Salaries | $ 58,521 | $ 102,412 | $ 630,896 | $ 430,921 | $ 1,222,750 |
| Payroll taxes | 4,991 | 8,734 | 51,165 | 36,903 | 101,793 |
| Employee benefits - Health insurance | 6,716 | 11,754 | 98,721 | 55,058 | 172,249 |
| Retirement and other | 3,848 | 6,735 | 28,798 | 21,873 | 61,254 |
| Total salaries and benefits | 74,076 | 129,635 | 809,580 | 544,755 | 1,558,046 |
| Administration | | | | | |
| Office supplies | 123 | 215 | 6,321 | 4,436 | 11,095 |
| Office rent | 490 | 858 | 701 | 699 | 2,748 |
| Agency indirect cost allocation | 26,127 | 45,788 | 196,112 | 136,619 | 404,646 |
| Miscellaneous | 2,410 | 4,217 | 18,394 | 20,483 | 45,504 |
| Total administrative | 29,150 | 51,078 | 221,528 | 162,237 | 463,993 |
| Utilities expenses | | | | | |
| Electricity/Gas/Water/Sewer /Waste Disposal | 19,641 | 34,371 | 39,734 | 34,341 | 128,087 |
| Total utilities | 19,641 | 34,371 | 39,734 | 34,341 | 128,087 |
| Taxes and licenses | | | | | |
| Real estate taxes | 41 | 387 | 726 | 622 | 1,776 |
| Miscellaneous taxes, licenses and permits | 10 | 17 | 6,560 | 992 | 7,579 |
| Total taxes and licenses | 51 | 404 | 7,286 | 1,614 | 9,355 |
| Insurance | | | | | |
| Property and liability insurance | 1,228 | 2,149 | 16,671 | 10,774 | 30,822 |
| Workers' compensation | 1,207 | 2,112 | 15,840 | 11,314 | 30,473 |
| Total insurance | 2,435 | 4,261 | 32,511 | 22,088 | 61,295 |
| Maintenance and repairs | | | | | |
| Facilities maintenance | 21,200 | 37,099 | 14,370 | 8,033 | 80,702 |
| Equipment maintenance | 2,716 | 4,752 | 1,030 | 1,421 | 9,919 |
| Total maintenance and repairs | 23,916 | 41,851 | 15,400 | 9,454 | 90,621 |
| Supportive services | 2,011 | 3,520 | 36,887 | 26,482 | 68,900 |
| Total operating expenses | 151,280 | 265,120 | 1,162,926 | 800,971 | 2,380,297 |
| Change in total net assets from operations (net loss) | $ 89,877 | $ 41,685 | $ (5,788) | $ 55,176 | $ 180,950 |

BAKER PLACES, INC. AND AFFILIATE
SCHEDULE OF OPERATING CASH FLOWS AND SURPLUS CASH
FOR THE YEAR ENDED JUNE 30, 2023

| | 214 Dolores | 1761 Page St. | Ferguson | Odyssey House | Total |
|---|---|---|---|---|---|
| Operating revenue | $ 241,157 | $ 306,805 | $ 1,157,138 | $ 856,147 | $ 2,561,247 |
| Operating expenses | 151,280 | 265,120 | 1,162,926 | 800,971 | 2,380,297 |
| Net operating income | 89,877 | 41,685 | (5,788) | 55,176 | 180,950 |
| Operating cash flows | $ 89,877 | $ 41,685 | $ (5,788) | $ 55,176 | $ 180,950 |

## BAKER PLACES, INC. AND AFFILIATE
## SCHEDULE OF REPLACEMENT RESERVE AND OPERATING RESERVE ACTIVITY
## FOR THE YEAR ENDED JUNE 30, 2023

| | 214 Dolores | 1761 Page St. | Ferguson | Odyssey House | Total |
|---|---|---|---|---|---|
| Replacement reserve | | | | | |
| Beginning balance, June 30, 2022 | $ 32,755 | $ 15,125 | $ 6,355 | $ 66,099 | $ 120,334 |
| Interest earned | 151 | 43 | (13) | 323 | 504 |
| Closing balance, June 30, 2023 | $ 32,906 | $ 15,168 | $ 6,342 | $ 66,422 | $ 120,838 |
| Operating reserve | | | | | |
| Beginning balance, June 30, 2022 | $ 4,583 | $ 4,049 | $ 2,843 | $ 28,242 | $ 39,717 |
| Interest earned | (184) | 18 | (29) | 138 | (57) |
| Closing balance, June 30, 2023 | $ 4,399 | $ 4,067 | $ 2,814 | $ 28,380 | $ 39,660 |

# BAKER PLACES, INC.

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
## FOR THE YEAR ENDED JUNE 30, 2023

| Federal Grantor/Pass-through Grantor/Program or Cluster Title | Grant Period | Assistance Listing Number | Program / Project Pass-through Identification Number | Federal Expenditures |
|---|---|---|---|---|
| US Department of Health and Human Services | | | | |
| *Direct Programs:* | | | | |
| Substance Abuse and Mental Health Services Administration | 9/30/22-9/29/23 | 93.243 | 1H79TI085234-01 | $ 253,377 |
| Substance Abuse and Mental Health Services Administration | 9/30/22-9/29/23 | 93.243 | 6H79TI080650-05M001 | 86,453 |
| | | | | 339,830 |
| *Pass-through: PRC* | | | | |
| Substance Abuse Prevention and Treatment Block Grant | 9/30/22-9/29/23 | 93.243 | 6H79TI082721-01M002 | 89,743 |
| HIV Emergency Relief Formula Grant | 4/1/22-3/31/2023 | 93.917 | 1000010913 | 278,088 |
| | | | | 367,831 |
| *Pass-through: City and County of San Francisco* | | | | |
| Medical Assistance Program - Federal Drug Medi Cal FFP | 7/1/22-6/30/23 | 93.778 | 38442-240646-10000-10001681-0003 | 901,312 |
| Total US Department of Health and Human Services | | | | 1,608,973 |
| US Department of Housing and Urban Development | | | | |
| *Pass-through: PRC* | | | | |
| San Francisco Mayor's Office of Housing and Community Development | 7/1/22-6/30/23 | 93.917 | 175140-21 | 19,365 |
| Mayor's Office of Housing and Community Developments | 7/1/22-6/30/23 | 14.241 | 181739-22, 175140-21 | 1,416,096 |
| | | | | 1,435,461 |
| Total expenditures of federal awards | | | | $ 3,044,434 |

See the accompanying notes to Schedule of Expenditures of Federal Awards

## NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards ("the Schedule") includes the federal award activity of Baker Places, Inc. ("Baker Places") under programs of the federal government for the year ended June 30, 2023. 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 Baker Places, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Baker Places.

## 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 -** Baker Places 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

Baker Places did not provide any federal awards to subrecipients for the fiscal year ended June 30, 2023.

# 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
Baker Places, Inc.
San Francisco, California

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 Baker Places, Inc. and Affiliate (a California nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2023, and the related consolidated statements of activities, functional expenses, and consolidated cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 01, 2024.

## Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Baker Places, Inc. and Affiliate'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Baker Places, Inc. and Affiliate's internal control. Accordingly, we do not express an opinion on the effectiveness of the Baker Places, Inc. and Affiliate's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

## Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Baker Places, Inc. and Affiliate's consolidated financial statements are free from 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 consolidated 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Harshwal & Company LLP

Oakland, California
April 01, 2024

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
Baker Places, Inc.
San Francisco, California

### Report on Compliance for Each Major Federal Program

#### *Opinion on Each Major Federal Program*

We have audited Baker Places, Inc. and Affiliate 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 Baker Places, Inc. and Affiliate's major federal programs for the year ended June 30, 2023. Baker Places, Inc. and Affiliate'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, Baker Places, Inc. and Affiliate 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, 2023.

#### *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 *(Government Auditing Standards)*; 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 Baker Places, Inc. and Affiliate 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 Baker Places, Inc. and Affiliate'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 Baker Places, Inc. and Affiliate'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 Baker Places, Inc. and Affiliate'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 Baker Places, Inc. and Affiliate'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 Baker Places, Inc. and Affiliate'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 Baker Places, Inc. and Affiliate'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 Baker Places, Inc. and Affiliate'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

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.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's 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. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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.

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**
**April 01, 2024**

## 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)? | None reported |
| • 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)? | None reported |
| 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)? | No |

### *Identification of major program:*

| Assistance Listing Number | Name of Federal Program or Cluster |
|---|---|
| 93.778 | Medical Assistance Program - Federal Drug Medi Cal FFP |
| 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

None reported.

## SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

## BAKER PLACES, INC.

## SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
## FOR THE YEAR ENDED JUNE 30, 2023

| FINDING | PRIOR YEAR AUDIT FINDINGS | STATUS |
|---|---|---|
| **Financial Statement Findings** | | |
| 2022-001 | Segregation of Duties (Significant Deficiency) | Resolved |
| **Federal Award Findings** | | |
| 2022-002 | Reporting (Material weakness) | Resolved |