

**Audited Financial Statements
and Other Information**



June 30, 2019

Quigley & Miron

Downtown Streets, Inc.
Audited Financial Statements and Other Information
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Independent Auditor's Report

Board of Directors
Downtown Streets, Inc.
San Jose, California

Report on the Financial Statements

We have audited the accompanying financial statements of Downtown Streets, Inc., dba Downtown Streets Team (Organization), a nonprofit organization, which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, including 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 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 financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 financial statements 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Downtown Streets, Inc., dba Downtown Streets Team as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Downtown Streets, Inc.'s June 30, 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 4, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is also 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards 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 reports dated December 10, 2019, on our consideration of Downtown Streets, Inc.'s internal control over financial reporting, and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is 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 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 Downtown Streets, Inc.'s internal control over financial reporting and compliance.



Downtown Streets, Inc.
Statement of Financial Position
June 30, 2019
(with comparative totals for 2018)

	<u>2019</u>	<u>2018</u>
Assets		
Cash and cash equivalents	\$ 273,312	\$ 7,408
Contracts receivable	1,786,386	1,098,313
Grants and contributions receivable	100,705	176,100
Prepaid expenses	178,445	98,244
Property and equipment, net—Note 4	128,245	160,719
Deposits	47,102	45,102
	<u>2,514,195</u>	<u>1,585,886</u>
Total Assets	\$ 2,514,195	\$ 1,585,886
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 292,822	\$ 112,309
Employee benefits payable	109,516	64,770
Amounts due to related parties—Note 3		69,000
Line of credit—Note 5	319,862	200,000
Note payable—Note 6		50,000
Deferred revenue	8,333	15,676
Rental deposits	13,052	13,052
	<u>743,585</u>	<u>524,807</u>
Total Liabilities	743,585	524,807
Net Assets		
Without donor restrictions	1,596,319	875,432
With donor restrictions —Note 7	174,291	185,647
	<u>1,770,610</u>	<u>1,061,079</u>
Total Net Assets	1,770,610	1,061,079
Total Liabilities and Net Assets	\$ 2,514,195	\$ 1,585,886

See notes to financial statements.

Downtown Streets, Inc.
Statement of Activities
Year Ended June 30, 2019
(with comparative totals for 2018)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2019 Total</u>	<u>2018 Total</u>
Operating Activities				
Public Support and Revenue				
Federal contracts	\$ 1,372,707	\$	\$ 1,372,707	\$ 1,237,088
Grants and contributions	2,491,759	150,537	2,642,296	1,782,973
In-kind donations	7,217		7,217	155,278
Fee for service contracts	4,106,600		4,106,600	2,884,841
Fundraising events				
Revenue	139,653	23,754	163,407	143,048
Less direct benefit to donors	(73,903)		(73,903)	(81,846)
Fundraising Events, Net	65,750	174,291	89,504	61,202
Other income	1,551		1,551	892
Net assets released from restrictions	185,647	(185,647)		
Total Public Support and Revenue	8,231,231	(11,356)	8,219,875	6,122,274
Expenses				
Program services	6,454,032		6,454,032	4,643,754
Supporting services				
Management and general	845,800		845,800	785,964
Fundraising	352,340		352,340	217,827
Total Expenses	7,652,172		7,652,172	5,647,545
Change in Net Assets From Operations	579,059	(11,356)	567,703	474,729
Nonoperating Activities				
Rental income—Note 3	141,828		141,828	78,192
Loss on sale of equipment				(4,105)
Total Nonoperating Activities	141,828		141,828	74,087
Change in Net Assets	720,887	(11,356)	709,531	548,816
Net Assets at Beginning of Year	875,432	185,647	1,061,079	512,263
Net Assets at End of Year	\$ 1,596,319	\$ 174,291	\$ 1,770,610	\$ 1,061,079

See notes to financial statements.

Downtown Streets, Inc.
Statement of Functional Expenses
Year Ended June 30, 2019
(with comparative totals for 2018)

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Cost of Direct Benefits</u>	<u>2019 Total</u>	<u>2018 Total</u>
Expenses						
Salaries	\$ 3,102,487	\$ 393,681	\$ 235,634	\$	\$ 3,731,802	\$ 2,665,907
Employee benefits— Note 8	437,899	56,308	33,805		528,012	357,403
Payroll taxes	264,698	29,362	20,130		314,190	233,995
Total Personnel Expenses	3,805,084	479,351	289,569		4,574,004	3,257,305
Vouchers	1,488,543				1,488,543	1,037,151
Occupancy	388,676	90,745	30,860		510,281	338,339
Professional fees	150,531	113,194	366		264,091	270,869
Supplies	138,680	30,162	3,041		171,883	223,829
Transportation	103,522	17,195	2,775		123,492	96,911
Office expenses	73,513	41,947	4,127		119,587	90,422
Program outreach services	62,350		14,078		76,428	82,912
Cost of direct benefits to donors				73,903	73,903	81,846
Insurance	46,990	11,464			58,454	45,298
Dues and subscriptions	25,590	29,212	3,478		58,280	37,567
Telephone	45,613	11,167	560		57,340	61,438
Meetings and trainings	41,439	16,069			57,508	24,336
Depreciation	40,926	445			41,371	34,241
Computer expenses	20,967	2,184	1,016		24,167	16,146
Interest	15,193	2,240	1,763		19,196	22,186
Printing	6,415	425	707		7,547	8,595
Total Expenses by Function	6,454,032	845,800	352,340	73,903	7,726,075	5,729,391
Less cost of direct benefits to donors				(73,903)	(73,903)	(81,846)
Total Expenses	\$ 6,454,032	\$ 845,800	\$ 352,340	\$	\$ 7,652,172	\$ 5,647,545

See notes to financial statements.

Downtown Streets, Inc.
Statement of Cash Flows
Year Ended June 30, 2019
(with comparative totals for 2018)

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 709,531	\$ 548,816
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Donated stock	(3,789)	(21,040)
Proceeds on sale of donated stock	3,789	21,040
Loss on sale of equipment		4,105
In-kind donated mobile showers		(94,748)
Depreciation	41,371	34,241
Changes in operating assets:		
Contracts receivable	(688,073)	(460,414)
Grants and contributions receivable	75,395	(153,100)
Inventory		36,971
Prepaid expenses	(80,201)	(16,653)
Deposits	(2,000)	(13,221)
Changes in operating liabilities:		
Accounts payable and accrued expenses	180,513	(11,420)
Employee benefits payable	44,746	(83,577)
Deferred revenue	(7,343)	10,683
Rental deposits		5,602
Net Cash Provided by (Used in) Operating Activities	<u>273,939</u>	<u>(192,715)</u>
Cash Flows from Investing Activities		
Purchases of property and equipment	(8,897)	(48,232)
Proceeds from sale of equipment		1,000
Repayments of loan receivable from related party		99,131
Net Cash Provided by (Used in) Investing Activities	<u>(8,897)</u>	<u>51,899</u>
Cash Flows from Financing Activities		
Proceeds from amounts due to related parties	141,307	134,600
Payments on amounts due to related parties	(210,307)	(144,600)
Proceeds from note payable		50,000
Payments on note payable	(50,000)	
Proceeds from line of credit	322,319	255,065
Payments on line of credit	(202,457)	(255,065)
Net Cash Provided by Financing Activities	<u>862</u>	<u>40,000</u>
Increase (Decrease) in Cash and Cash Equivalents	<u>265,904</u>	<u>(100,816)</u>
Cash and Cash Equivalents at Beginning of Year	<u>7,408</u>	<u>108,224</u>
Cash and Cash Equivalents at End of Year	<u>\$ 273,312</u>	<u>\$ 7,408</u>

See notes to financial statements.

Downtown Streets, Inc.
Notes to Financial Statements
June 30, 2019
(with comparative totals for 2018)

Note 1—Organization and Summary of Significant Accounting Policies

Organization—Downtown Streets, Inc., dba Downtown Streets Team, (Organization) was incorporated in 2005 as a California nonprofit corporation dedicated to eliminating current and preventing future homelessness. The Organization began in 2005 in Palo Alto, California and currently operates in 15 cities spanning seven counties in the Bay Area. Since 2005, the Organization has assisted over 2,000 Team Members in securing employment and/or finding permanent housing. Through community-based beautification projects, Team Members have removed over 3,000 tons of debris from urban waterways. In exchange for volunteering to clean up their communities, Team Members are provided with a basic needs stipend that they may use on food, medicine, clothing, hygiene supplies, transportation, storage, and communication, among other things. Team Members have access to case management and employment services which serve to help them eliminate the barriers that keep them from jobs and housing. Through their efforts, Team Members regain self-worth and benefit from a sense of community which propels them to a higher quality of life and out of homelessness. The Organization is principally funded through contributions and government contracts.

Financial Statement Presentation—In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adopted ASU No. 2016-14 for the year ended June 30, 2019 and has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

The financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Organization's net assets are classified based on the existence or absence of donor-imposed restrictions. As such, the net assets of the Organization and changes therein are presented and reported as follows:

Net assets without donor restrictions—Net assets that are not subject to donor-imposed stipulations and that 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 the board of directors.

Net assets with donor restrictions—Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; such restrictions that may or will be met either by actions of the Organization and/or the passage of time.

Donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restriction. When a time restriction expires or a purpose restriction is satisfied, net assets with donor restrictions are reclassified to net assets without donor restriction and are reported in the statement of activities as net assets released from restrictions. It is the policy of the Organization to record contributions that are restricted by the donor as an increase in net assets without donor restrictions if the restriction expires in the reporting period recognized.

Downtown Streets, Inc.

Notes to Financial Statements—Continued

Note 1—Organization and Summary of Significant Accounting Policies—Continued

Measure of Operations—The statement of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of activities to eliminate and prevent homelessness and interest income on bank balances. Nonoperating activities are limited to rental income and other activities considered to be of a more unusual or nonrecurring nature.

Income Taxes—The Organization is a nonprofit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (Code) and Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for federal or state income taxes is included in the financial statements. In addition, the Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Code. Accounting standards require an organization to evaluate its tax positions and provide for a liability for any positions that would not be considered 'more likely than not' to be upheld under a tax authority examination. Management has evaluated its tax positions and has concluded that a provision for a tax liability is not necessary at June 30, 2019 and 2018. Generally, the Organization's information returns remain open for examination for a period of three (federal) or four (state of California) years from the date of filing.

Cash and Cash Equivalents—The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash consists of balances in checking and savings accounts and in certificates of deposit at banks.

Property and Equipment—Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Acquisitions of property and equipment valued at less than \$3,000 are expensed when purchased or donated. Depreciation is provided on the straight-line method over estimated useful lives of the related assets (principally five years).

Concentrations of Credit and Business Risk—Financial instruments which potentially subject the Organization to concentrations of credit risk consist of cash and cash equivalents and receivables. The Organization maintains its cash and cash equivalents at high quality financial institutions where funds are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor. In the normal course of business, the Organization's cash and cash equivalent balances may exceed the FDIC insurance limit. Receivables are due from organizations and governmental agencies well-known to the Organization with excellent payment histories; all amounts receivable at June 30, 2019 and 2018 are due within one year. The Organization's management has assessed the credit risk associated with the deposit accounts and receivables held at June 30, 2019 and 2018, and has determined that an allowance for potential losses due to credit risk is not necessary.

Use of Estimates—The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Downtown Streets, Inc.
Notes to Financial Statements—Continued

Note 1—Organization and Summary of Significant Accounting Policies—Continued

Revenue Recognition—Revenues from contracts are reported as increases in net assets without donor restrictions as allowable expenditures under such agreements are incurred. The amounts expended in excess of reimbursements are reported as contracts receivable.

In-Kind Donations—The Organization records various types of in-kind donations, including office space, professional services and tangible assets. Donated services are recorded at fair value at the date of donation only if the services (a) create or enhance nonfinancial assets, or (b) require specialized skills that are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Donations of office space and tangible assets are recognized at fair value when received.

In-kind donations of \$7,217 and \$155,278 for the years ended June 30, 2019 and 2018, respectively, have been recorded in the in-kind donations caption of the statements of activities at their fair value and included in the statements of financial position and functional expenses as follows:

	<u>2019</u>	<u>2018</u>
Statement of Financial Position		
Mobile showers	\$	\$ 94,748
Statement of Functional Expenses		
Supplies	7,217	51,630
Program outreach services		8,900
Totals	<u>\$ 7,217</u>	<u>\$ 155,278</u>

Functional Expenses—The costs of providing the various program and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated between the program services and supporting services benefitted. Salaries, employee benefits, and payroll taxes are allocated on the basis of estimates of time and effort. All other functional expenses are allocated directly to the function benefitted.

Statement of Cash Flows—During the years ended June 30, 2019 and 2018, the Organization paid no income taxes and paid interest expense of \$19,196 and \$22,185, respectively.

Reclassifications—Certain amounts in 2018 have been reclassified to conform with the 2019 financial statement presentation.

Comparative Totals for 2018—The accompanying financial statements include certain prior-year summarized comparative financial information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization’s audited financial statements for the year ended June 30, 2018, from which the summarized information was derived.

Downtown Streets, Inc.

Notes to Financial Statements—Continued

Note 2—Availability of Financial Assets and Liquidity

The Organization’s goal is generally to maintain financial assets to meet 90 days of operating expenses (approximately \$2,000,000).

The following represents the availability and liquidity of the Organization’s financial assets at June 30, 2019 to cover operating expenses for the next fiscal year:

Cash and cash equivalents, net of donor restrictions	\$	199,726
Contracts receivable		1,786,386
Grants and contributions receivable		100,705
		<hr/>
Current Availability of Financial Assets	\$	<u>2,086,817</u>

Additionally, the Organization has a \$400,000 line of credit it can draw upon, of which \$80,138 is available to support general expenditures.

Note 3—Related Party Transactions

During the years ended June 30, 2019 and 2018, the Organization provided administrative and fundraising services to Peninsula Healthcare Connections, Inc. (PHC), a separate nonprofit organization with two common officers to Downtown Streets, Inc. During the years ended June 30, 2019 and 2018, the Organization received \$5,000 and \$35,000, respectively, for these services. These amounts are reported as fee for service contracts in the statement of activities. The Organization also shares certain common expenses with PHC to receive volume discounts, with the PHC portion reimbursed to the Organization. During the years ended June 30, 2019, and 2018, PHC reimbursed the Organization \$95,071 and \$88,763, respectively for incurred expenses.

The Organization subleases a portion of its primary administrative offices to PHC under a month-to-month lease; such rental income received during the years ended June 30, 2019 and 2018 totaled \$38,000 and \$36,000, respectively.

During the years ended June 30, 2019 and 2018, the Organization entered into a series of short-term borrowings from the spouse of an employee to meet cash flow requirements. The note is non-interest bearing and is to be repaid as the cash flow of the Organization permits. The outstanding balance as of June 30, 2019 and 2018 amounted to \$0 and \$69,000, respectively. An additional \$37,674, payable to the employee’s credit cards, is included in accounts payable and accrued expenses in the statement of financial position as of June 30, 2018.

Downtown Streets, Inc.
Notes to Financial Statements—Continued

Note 4—Property and Equipment, Net

Property and equipment, net at June 30, 2019 and 2018 consists of the following:

	<u>2019</u>	<u>2018</u>
Vehicles	\$ 151,796	\$ 142,899
Mobile showers	97,448	97,448
	249,244	240,347
Less accumulated depreciation	<u>(120,999)</u>	<u>(79,628)</u>
Net	<u>\$ 128,245</u>	<u>\$ 160,719</u>

Total depreciation expense recorded for the years ended June 30, 2019 and 2018 was \$41,371 and \$34,241.

Note 5—Line of Credit

During the year ended June 30, 2019, the Organization opened a \$400,000 line of credit with a bank, bearing interest at the bank's prime interest rate, currently at 5.5%, plus 1%, requiring monthly payments of interest only and secured by substantially all the assets of the Organization; the line of credit has a current maturity date of December 31, 2020. At June 30, 2019, the outstanding balance on the line of credit is \$319,862.

The Organization previously maintained a \$200,000 line of credit with another bank, bearing interest at the bank's prime interest rate plus 2.5%, with a 7.5% floor, requiring monthly payments of interest only and secured by substantially all the assets of the Organization; the line of credit matured on March 1, 2019 and was paid in full. At June 30, 2018, the outstanding balance on the line of credit was \$200,000.

Note 6—Note Payable

During the year ended June 30, 2018, the Organization received a short-term borrowing from a third party to meet cash flow requirements. The note was non-interest bearing and to be repaid as the cash flow of the Organization permitted. The outstanding balance as of June 30, 2018 amounted to \$50,000, which was paid off during the year ended June 30, 2019.

Downtown Streets, Inc.
Notes to Financial Statements—Continued

Note 7—Net Assets With Donor Restrictions

Net assets with donor restrictions at June 30, 2019 and 2018 consist of the following:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose:		
Santa Clara County	\$ 49,841	\$ 90,497
Dropdown Downtown	23,745	
San Francisco Team		50,000
Alameda County		45,150
	<u>73,586</u>	<u>185,647</u>
Total Subject to Expenditure for Specified Purpose	73,586	185,647
Time restricted for future periods	<u>100,705</u>	
	<u>100,705</u>	
Totals	<u>\$ 174,291</u>	<u>\$ 185,647</u>

Net assets released from donor restrictions for the years ended June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Satisfaction of purpose restrictions:		
Santa Clara County	\$ 90,497	\$ 32,418
San Francisco Team	50,000	104,131
Alameda County	45,150	
Santa Cruz Team		39,152
Dropdown Downtown		13,910
Data impact analysis		7,064
	<u>185,647</u>	<u>196,675</u>
Totals	<u>\$ 185,647</u>	<u>\$ 196,675</u>

Note 8—Employee Benefit Plan

The Organization has adopted a 401(k) plan (the Plan) that covers employees who are at least 21 years of age and have completed 1,000 hours of service in 12 months of employment. Participants may elect to defer up to 80% of their annual salaries under the Plan, subject to Internal Revenue Service limitations. The Plan provides for matching of 100% of deferrals up to the first 6% of compensation. Employees vest immediately in all voluntary contributions to the Plan. The Organization's contribution to the Plan was \$67,797 and \$72,075 for the years ended June 30, 2019 and 2018, respectively.

Downtown Streets, Inc.
Notes to Financial Statements—Continued

Note 9—Contingencies

The Organization provides program participants with vouchers for meals, lodging, phone services and/or gasoline. The Organization has taken the position that the distribution of vouchers to the team members is not a substitute for compensation for work performed in the context of the program. As such, the team members are considered volunteers and the value of the vouchers is not subject to payroll tax or other wage laws. The Organization relies on advice of counsel in support of this position.

If this position were challenged by the U.S. Department of Labor or California Division of Labor Standards Enforcement, the Organization could be liable for resulting payroll taxes, penalties and other wage law requirements. The amount of any such liability is not known as of June 30, 2019.

Note 10—Commitments

The Organization leases various office and meeting spaces throughout its service area and office equipment. The future minimum annual rental commitments by year for its leases with a remaining term greater than one year are as follows:

<u>Year Ending June 30,</u>	
2020	\$ 321,345
2021	290,122
2022	210,055
2023	35,009
	<hr/>
Total	<u><u>\$ 856,531</u></u>

The Organization also leases various office and meeting spaces leases on a month-to-month basis. Rental expense for all operating leases, including required common area costs and utilities, for the years ended June 30, 2019 and 2018 was \$429,689 and \$311,136, respectively, and is included in the Occupancy caption on the statement of functional expenses.

Note 11—Recent Accounting Pronouncements

Leases—In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires organizations that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statement of financial position for leases with terms exceeding 12 months. ASU No. 2016-02 defines a lease as a contract or part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. ASU No. 2016-02 is effective for nonprofit organizations with fiscal years beginning after December 15, 2020, with early adoption permitted. The Organization is currently evaluating the impact that the adoption of ASU 2016-02 will have on its financial statements.

Downtown Streets, Inc.

Notes to Financial Statements—Continued

Note 11—Recent Accounting Pronouncements—Continued

Contributions—In June 2018, FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.*, This update clarified the definition of an exchange transaction. As a result, non-for-profit entities will account for most government grants as donor-restricted conditional contributions, rather than as exchange transaction (the prevalent practice today). An accommodation (“simultaneous release” option) is provided which, if elected, would allow grants received and used within the same period to be reported in net assets without donor restrictions, consistent with where the grant revenue is reported today. Donors will use the same criteria as recipients (i.e., a barrier or hurdle coupled with a right of return/right of release) to determine whether gifts or grants are conditional or unconditional. Expense recognition is deferred for conditional arrangement and is immediate for unconditional arrangements. No new disclosures are required. ASU No. 2018-08 is effective for nonprofit organizations with fiscal years beginning after December 15, 2018, with early adoption permitted. The Organization is currently evaluating the impact that the adoption of ASU 2018-08 will have on its financial statements.

Note 12—Subsequent Events

Management evaluated subsequent events through December 10, 2019, which is the date the financial statements were available to be issued, and concluded that no other material subsequent events have occurred that would require adjustment to the financial statements or disclosure in the notes to the financial statements.

Downtown Streets, Inc.
Schedule of Expenditure of Federal Awards
Year Ended June 30, 2019

Federal Grantor/ Pass-through Grantor Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Award Period	Federal Expenditures
U.S. Department of Housing and Urban Development				
CDBG—Entitlement Grants Cluster				
Community Development Block Grants/Entitlement Grants				
Passed through:				
City of San Jose	14.218	CPS-16-017B	07/01/18-06/30/20	\$ 473,240
City of Palo Alto	14.218	C18170011	07/01/18-06/30/19	327,012
Sunnyvale Community Services	14.218	1819-829560	07/01/18-06/30/19	277,237
City of Hayward	14.218	C-18090	07/01/18-06/30/19	141,840
City of Hayward	14.218	C-17127	07/01/17-06/30/19	101,129
County of Marin	14.218	CM-19	03/01/19-06/30/19	10,717
Total CDBG—Entitlement Grants Cluster, CFDA Nos. 14.218 and 14.225				1,331,175
Total U.S. Department of Housing and Urban Development				1,331,175
U.S. Department of Health and Human Services				
Community Services Block Grant				
Passed through:				
City of Oakland	93.569	2019AC-OCAP	01/01/17-12/31/19	41,532
Total CFDA No. 93.569				41,532
Total U.S. Department of Health and Human Services				41,532
Total Expenditures of Federal Awards				\$ 1,372,707

See notes to the schedule of expenditures of federal awards.

Downtown Streets, Inc.
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

Note A—Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Downtown Streets, Inc. under programs of the federal government for the year ended June 30, 2019. The information in this schedule is presented in accordance with 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). Because the schedule presents only a selected portion of the operations of Downtown Streets, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Downtown Streets, Inc.

Note B—Summary of Significant Accounting Policies

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. Downtown Streets, Inc. has elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance. Any negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

Downtown Streets, Inc.
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2019

There were no prior year audit findings.

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Downtown Streets, Inc.
San Jose, California

We have audited 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, the financial statements of Downtown Streets, Inc. (Organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated December 10, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting 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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Zwigley & Niron". The signature is written in a cursive, flowing style.

Campbell, California
December 10, 2019

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Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance

Board of Directors
Downtown Streets, Inc.
San Jose, California

Report on Compliance for Each Major Federal Program

We have audited the compliance of Downtown Streets, Inc. (Organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2019. The Organization's major federal program is 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our compliance audit 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 the Organization'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 the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal award program for the year ended June 30, 2019.

Report on Internal Control over Compliance

The Organization's management 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 the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing 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 the Organization's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

Purpose of This Report

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 result of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Campbell, California
December 10, 2019



Downtown Streets, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2019

A. Summary of Audit Results

1. The auditor's report expresses an unmodified opinion on whether the financial statements of Downtown Streets, Inc. were prepared in accordance with accounting principles generally accepted in the United States of America.
2. No material weaknesses or significant deficiencies were identified during the audit.
3. No instances of noncompliance material to the financial statements of Downtown Streets, Inc. were disclosed during the audit.
4. No material weaknesses or significant deficiencies were identified during the audit of the major federal award program.
5. The auditor's report on compliance for the major federal award program of Downtown Streets, Inc. expresses an unmodified opinion.
6. There were no audit findings that required reporting in this schedule in accordance with Title 2 U.S. *Code of Federal Regulations* section 200.516(a).
7. The program tested as a major program was the Department of Housing and Urban Development Entitlement Grants Cluster, Community Development Block Grants/Entitlement Grants, CFDA No. 14.218 and Community Development Block Grants/Special Purpose Grants/Insular Areas, CFDA No. 14.225.
8. The threshold for distinguishing Types A and B programs was \$750,000.
9. Downtown Streets, Inc. was determined to be a low risk auditee.

B. Findings— Financial Statements Audit

None

C. Findings and Questioned Costs—Major Federal Award Program

None

Downtown Streets, Inc.
Corrective Active Plan
Year Ended June 30, 2019

As there were no audit findings or questioned costs for the year ended June 30, 2019, a corrective action plan is not required.