**Audited Consolidated Financial Statements and Other Information**

DOWNTOWN STREETS TEAM

**June 30, 2017**

Quigley & Miron

**Downtown Streets, Inc.**
**Audited Consolidated Financial Statements and Other Information**
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**June 30, 2017**

Quigley & Miron

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## Independent Auditor's Report

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

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Downtown Streets, Inc., dba Downtown Streets Team (Organization), a nonprofit organization, which comprise the consolidated statement of financial position as of June 30, 2017, 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.

### Management's Responsibility for the Consolidated Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Downtown Streets, Inc., dba Downtown Streets Team as of June 30, 2017, 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, 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated November 15, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

**Other Matters**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards 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 consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards 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 reports dated January 23, 2018, 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.

Quigley & Miron

Campbell, California
January 23, 2018

**Downtown Streets, Inc.**
**Consolidated Statement of Financial Position**
**June 30, 2017**
**(with comparative totals for 2016)**

| | 2017 | 2016 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 108,224 | $ 58,720 |
| Investments—Note 2 | | 40,830 |
| Contracts receivable | 637,899 | 566,201 |
| Grants receivable | 23,000 | 36,168 |
| Inventory | 36,971 | 46,672 |
| Prepaid expenses | 81,591 | 56,552 |
| Amounts due from related parties—Note 3 | 99,131 | 99,131 |
| Property and equipment, net—Note 4 | 57,085 | 71,870 |
| Deposits | 31,881 | 26,577 |
| **Total Assets** | **$ 1,075,782** | **$ 1,002,721** |
| **Liabilities and Net Assets** | | |
| Accounts payable and accrued expenses | $ 123,729 | $ 118,543 |
| Employee benefits payable | 148,347 | 105,523 |
| Amounts due to related parties—Note 3 | 79,000 | |
| Line of credit—Note 5 | 200,000 | |
| Deferred revenue | 4,993 | |
| Rental deposits | 7,450 | 8,300 |
| **Total Liabilities** | **563,519** | **232,366** |
| **Net Assets** | | |
| Unrestricted | 315,588 | 382,284 |
| Temporarily restricted—Note 6 | 196,675 | 388,071 |
| **Total Net Assets** | **512,263** | **770,355** |
| **Total Liabilities and Net Assets** | **$ 1,075,782** | **$ 1,002,721** |

See notes to consolidated financial statements.

**Downtown Streets, Inc.**
**Consolidated Statement of Activities**
**Year Ended June 30, 2017**
**(with comparative totals for 2016)**

| | Unrestricted | Temporarily Restricted | 2017 Total | 2016 Total |
|---|---|---|---|---|
| **Public Support and Revenue** | | | | |
| Government contracts | $ 2,872,168 | $ | $ 2,872,168 | $ 3,001,750 |
| Grants and contributions | 1,139,978 | 145,562 | 1,285,540 | 1,539,037 |
| In-kind donations | 60,669 | | 60,669 | 55,299 |
| Fee for service contracts | 109,831 | | 109,831 | 37,056 |
| Other contracts | 617,577 | | 617,577 | 161,222 |
| Fundraising events, net —Note 7 | 34,619 | | 34,619 | 23,227 |
| Rental income—Note 3 | 70,743 | | 70,743 | 42,946 |
| Gain (loss) on investments, net | 11,078 | | 11,078 | (6,412) |
| Other income | 19,919 | | 19,919 | 17,537 |
| Net assets released from restrictions | 336,958 | (336,958) | | |
| **Total Public Support and Revenue** | **5,273,540** | **(191,396)** | **5,082,144** | **4,871,662** |
| **Expenses** | | | | |
| Program services | | | | |
| Palo Alto Team | 474,752 | | 474,752 | 592,643 |
| San Jose Team | 256,221 | | 256,221 | 487,214 |
| Sunnyvale Team | 425,589 | | 425,589 | 425,725 |
| San Rafael Team | 452,801 | | 452,801 | 386,933 |
| San Jose Streets Team | 1,948,979 | | 1,948,979 | 1,742,282 |
| North County Team | 192,669 | | 192,669 | 145,763 |
| San Francisco Team | 426,142 | | 426,142 | 270,367 |
| Hayward Team | 333,440 | | 333,440 | 35,902 |
| **Total Program Services** | **4,510,593** | | **4,510,593** | **4,086,829** |
| Supporting services | | | | |
| Management and general | 543,372 | | 543,372 | 407,991 |
| Fundraising | 286,271 | | 286,271 | 108,883 |
| **Total Expenses** | **5,340,236** | | **5,340,236** | **4,603,703** |
| **Change in Net Assets** | **(66,696)** | **(191,396)** | **(258,092)** | **267,959** |
| **Net Assets at Beginning of Year** | **382,284** | **388,071** | **770,355** | **502,396** |
| **Net Assets at End of Year** | **$ 315,588** | **$ 196,675** | **$ 512,263** | **$ 770,355** |

See notes to consolidated financial statements.

**Downtown Streets, Inc.**
**Consolidated Statement of Functional Expenses**
**Year Ended June 30, 2017**
**(with comparative totals for 2016)**

| | Program Services | | | | | | | | | Supporting Services | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Palo Alto Team** | **San Jose Team** | **Sunnyvale Team** | **San Rafael Team** | **San Jose Streets Team** | **North County Team** | **San Francisco Team** | **Hayward Team** | **Total** | **Management and General** | **Fundraising** | **Total** | **2017 Total** | **2016 Total** |
| **Expenses** | | | | | | | | | | | | | | |
| Salaries | $ 208,281 | $ 105,912 | $ 242,655 | $ 186,002 | $ 1,025,641 | $ 120,892 | $ 203,101 | $ 185,688 | $ 2,278,172 | $ 241,016 | $ 181,093 | $ 422,109 | $ 2,700,281 | $ 2,252,859 |
| Employee benefits | 25,669 | 2,178 | 21,745 | 27,565 | 122,651 | 11,066 | 35,128 | 23,181 | 269,183 | 29,923 | 15,288 | 45,211 | 314,394 | 269,234 |
| Payroll taxes | 18,074 | 11,901 | 22,454 | 16,157 | 91,076 | 10,749 | 17,986 | 15,865 | 204,262 | 19,092 | 16,718 | 35,810 | 240,072 | 200,982 |
| **Total Personnel Expenses** | **252,024** | **119,991** | **286,854** | **229,724** | **1,239,368** | **142,707** | **256,215** | **224,734** | **2,751,617** | **290,031** | **213,099** | **503,130** | **3,254,747** | **2,723,075** |
| Vouchers | 135,494 | 23,717 | 94,008 | 140,193 | 247,135 | 8,959 | 125,549 | 50,140 | 825,195 | 808 | 425 | 1,233 | 826,428 | 695,705 |
| Professional fees | 16,993 | 5,125 | 16,501 | 8,973 | 102,893 | 27,571 | 9,871 | 12,829 | 200,756 | 86,226 | 31,510 | 117,736 | 318,492 | 394,156 |
| Occupancy | 18,666 | 18,271 | 8,193 | 23,710 | 119,715 | | 11,918 | 14,231 | 214,704 | 60,012 | | 60,012 | 274,716 | 224,750 |
| Program outreach services | 13,852 | 31,460 | 1,904 | 8,610 | 90,526 | 1,163 | 4,236 | 2,909 | 154,660 | 46 | 2,822 | 2,868 | 157,528 | 140,948 |
| Supplies | 4,279 | 24,215 | 4,723 | 14,406 | 26,410 | 5,336 | 4,685 | 4,364 | 88,418 | 8,061 | 23,101 | 31,162 | 119,580 | 131,641 |
| Transportation | 9,841 | 6,162 | 5,253 | 10,651 | 43,593 | 4,380 | 5,850 | 3,505 | 89,235 | 14,007 | 419 | 14,426 | 103,661 | 76,365 |
| Telephone | 7,362 | 5,526 | 3,521 | 4,774 | 20,933 | 1,172 | 2,778 | 4,602 | 50,668 | 13,342 | 489 | 13,831 | 64,499 | 47,993 |
| Office expenses | 2,889 | 4,811 | 178 | 4,213 | 7,176 | 146 | 2,996 | 8,902 | 31,311 | 15,345 | 3,773 | 19,118 | 50,429 | 40,930 |
| Dues and subscriptions | 724 | 5,725 | 847 | 2,001 | 6,071 | | | 831 | 16,199 | 10,819 | 7,792 | 18,611 | 34,810 | 36,949 |
| Insurance | 2,693 | 1,702 | 1,146 | 454 | 15,759 | | | 1,173 | 22,927 | 10,671 | | 10,671 | 33,598 | 21,471 |
| Meetings and training | 8,011 | 38 | 518 | 948 | 12,595 | | 1,145 | 1,346 | 24,601 | 6,154 | 65 | 6,219 | 30,820 | 18,873 |
| Depreciation | | 8,860 | | 330 | 4,090 | | | | 13,280 | 8,105 | | 8,105 | 21,385 | 13,834 |
| Computer expenses | 1,091 | 265 | 981 | 981 | 4,175 | 1,235 | | 2,024 | 10,752 | 5,067 | 2,050 | 7,117 | 17,869 | 11,464 |
| Interest | 536 | | 801 | | 4,092 | | | 897 | 6,326 | 11,208 | | 11,208 | 17,534 | 10,683 |
| Printing | 297 | 353 | 161 | 2,833 | 4,448 | | 899 | 953 | 9,944 | 3,470 | 726 | 4,196 | 14,140 | 14,866 |
| **Total Expenses** | **$ 474,752** | **$ 256,221** | **$ 425,589** | **$ 452,801** | **$ 1,948,979** | **$ 192,669** | **$ 426,142** | **$ 333,440** | **$ 4,510,593** | **$ 543,372** | **$ 286,271** | **$ 829,643** | **$ 5,340,236** | **$ 4,603,703** |

See notes to consolidated financial statements.

**Downtown Streets, Inc.**
**Consolidated Statement of Cash Flows**
**Year Ended June 30, 2017**
**(with comparative totals for 2016)**

| | 2017 | 2016 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Change in net assets | $ (258,092) | $ 267,959 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities | | |
| (Gain) loss on investments | (10,199) | 6,332 |
| Donated stock | (37,210) | (35,269) |
| Depreciation | 21,385 | 13,834 |
| (Increase) decrease in operating assets: | | |
| Contracts receivable | (71,698) | 89,362 |
| Grants receivable | 13,168 | (22,618) |
| Inventory | 9,701 | (6,241) |
| Prepaid expenses | (25,039) | (42,195) |
| Deposits | (5,304) | (10,886) |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable and accrued expenses | 5,186 | 12,867 |
| Employee benefits payable | 42,824 | 35,738 |
| Deferred revenue | 4,993 | |
| Rental deposits | (850) | |
| **Net Cash Provided by (Used in) Operating Activities** | **(311,135)** | **308,883** |
| **Cash Flows from Investing Activities** | | |
| Purchases of property and equipment | (6,600) | (49,018) |
| Purchases of investments | | (313) |
| Proceeds from sale of investments | 88,239 | |
| Loan to related party | (454,369) | (182,131) |
| Repayments of loan receivable by related party | 454,369 | 128,000 |
| **Net Cash Provided by (Used in) Investing Activities** | **81,639** | **(103,462)** |
| **Cash Flows from Financing Activities** | | |
| Proceeds from amounts due to related parties | 124,000 | |
| Payments on amounts due to related parties | (45,000) | (97,190) |
| Proceeds from line of credit | 215,000 | 150,357 |
| Payments on line of credit | (15,000) | (299,601) |
| **Net Cash Provided by (Used in) Financing Activities** | **279,000** | **(246,434)** |
| **Increase (Decrease) in Cash and Cash Equivalents** | **49,504** | **(41,013)** |
| **Cash and Cash Equivalents at Beginning of Year** | **58,720** | **99,733** |
| **Cash and Cash Equivalents at End of Year** | **$ 108,224** | **$ 58,720** |

See notes to consolidated financial statements.

## 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 employs a work-first model in which members of the homeless community rebuild their lives through a volunteer work-readiness program. In exchange for food/housing vouchers and services, team members sweep streets, line soccer fields, perform janitorial work, run kitchens, clean environmental habitats, and much more. The Organization coordinates the efforts of local government officials, law enforcement, businesses, and volunteers to create job opportunities and hands-on case management for the homeless. Benefits such as counseling, transportation and long-term housing assistance are also available. The Organization began in Palo Alto, California and expanded into San Jose, California in July 2011 and Sunnyvale, California in July 2012. In June 2013, the Directors of the Organization formed a sister nonprofit organization, San Jose Streets Team, to provide community development activities to improve the physical, economic, or social environment in the Strong Neighbor Initiative Areas of the City of San Jose. The Organization is principally funded through contributions and government contracts.

Basis of Consolidation—The accompanying consolidated financial statements include the accounts of the Organization and its sister organization, San Jose Streets Team. All significant intercompany accounts have been eliminated in consolidation.

Financial Statement Presentation—The Organization recognizes contributions, including unconditional promises to give, as public support in the period received. Contributions and net assets are classified based on the existence or absence of donor-imposed restrictions. The net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets—Net assets that are not subject to donor-imposed stipulations and that may be expendable for any purpose in performing the primary objectives of the Organization.

Temporarily restricted net assets—Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated financial statements as net assets released from restrictions.

Permanently restricted net assets—Net assets for which the donor has stipulated that the principal be maintained into perpetuity. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes. At June 30, 2017 and 2016, the Organization had no permanently restricted net assets.

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

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 consolidated 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, 2017 and 2016. 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.

Inventory—Inventory is carried at the lower of cost or market determined by the first-in, first-out method if purchased. Donated inventory is stated as estimated fair value at date of donation. The Organization's inventory at June 30, 2017 and 2016 consists wholly of donated in-kind living supplies.

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, 2017 and 2016 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, 2017 and 2016, and has determined that an allowance for potential losses due to credit risk is not necessary.

Use of Estimates—The preparation of consolidated 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.

Revenue Recognition—Revenues from contracts are reported as increases in unrestricted net assets as allowable expenditures under such agreements are incurred. The amounts expended in excess of reimbursements are reported as contracts receivable.

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

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 $60,669 and $55,299 for the years ended June 30, 2017 and 2016, respectively, have been recorded in the in-kind donations caption of the consolidated statements of activities at their fair value and included in the consolidated statements of financial position and functional expenses as follows:

| | 2017 | 2016 |
|---|---|---|
| Statement of Financial Position | | |
| Inventory | $ | $ 6,241 |
| Statement of Functional Expenses | | |
| Program outreach services | 37,758 | 19,462 |
| Supplies | 22,911 | 27,435 |
| Professional fees | | 2,161 |
| **Totals** | **$ 60,669** | **$ 55,299** |

Functional Expenses—The costs of providing the various program and supporting services have been summarized on a functional basis in the consolidated statements of activities and functional expenses. Accordingly, certain costs have been allocated between the program services and supporting services benefitted.

Statement of Cash Flows—During the years ended June 30, 2017 and 2016, the Organization paid no income taxes and paid interest expense of $17,534 and $10,683, respectively.

Reclassifications—Certain amounts in 2016 have been reclassified to conform with the 2017 consolidated financial statement presentation.

Comparative Totals for 2016—The accompanying consolidated 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 consolidated financial statements for the year ended June 30, 2016, from which the summarized information was derived.

## Note 2—Investments and Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accounting standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy is categorized into three levels based on the inputs as follows:

Level 1—Quoted market prices in active markets for identical assets or liabilities. Level 1 assets include equity securities and mutual funds valued at the closing price reported on the active market on which the individual securities are traded

Level 2—Observable market-based inputs, either directly or indirectly, but are other than quoted prices in actively traded markets. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and other observable inputs that can be corroborated by observable market data.

Level 3—Unobservable inputs that are supported by little or no market activity which are significant to the fair value of the asset or liability. Unobservable inputs reflect the best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

## Note 3—Related Party Transactions

During the year ended June 30, 2016, the Organization provided administrative and fundraising services to Peninsula Healthcare Connections, Inc. (PHC), a separate nonprofit organization with one common officer to Downtown Streets, Inc. During the year ended June 30, 2016, the Organization received $21,009, for these services; these amounts are reported as fee for service contracts in the consolidated 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, 2017, and 2016, PHC reimbursed the Organization $13,216 and $25,842, respectively for incurred expenses.

Additionally, during the years ended June 30, 2017 and 2016, the Organization paid $13,670 and $183,687, respectively to PHC for professional services provided to the Organization. Amounts due to PHC related to these professional services at June 30, 2016, amounted to $67,736 and were included in accounts payable and accrued expenses in the consolidated statement of financial position.

During the years ended June 30, 2017 and 2016, the Organization made loans to PHC for cash flow purposes, with no specified repayment terms. Such loan balances at June 30, 2017 and 2016 amounted to $99,131, and $99,131, respectively, these amounts were included in accounts payable and accrued expenses in the consolidated statement of financial position.

The Organization subleases a portion of its primary administrative offices to PHC; such rental income received during the years ended June 30, 2017 and 2016 totaled $24,000 and $10,000, respectively.

### Note 3—Related Party Transactions—*Continued*

During the years ended June 30, 2017 and 2016, the Organization entered into a series of short-term borrowings from an employee to meet cash flow requirements. The notes are non-interest bearing and are to be repaid as the cash flow of the Organization permits. Such outstanding balances as of June 30, 2017 and 2016 amounted to $79,000 and $0, respectively. An additional $59,540, payable to the employee's credit cards, is included in accounts payable and accrued expenses in the consolidated statement of financial position as of June 30, 2017.

### Note 4—Property and Equipment, Net

Property and equipment, net at June 30, 2017 and 2016 consists of the following:

| | 2017 | 2016 |
|---|---|---|
| Vehicles | $ 112,618 | $ 106,018 |
| Office furniture and equipment | 9,009 | 9,009 |
| | 121,627 | 115,027 |
| Less accumulated depreciation | (64,542) | (43,157) |
| **Net** | **$ 57,085** | **$ 71,870** |

### Note 5—Line of Credit

The Organization maintains a $200,000 line of credit with a bank, bearing interest at the bank's prime interest rate plus 2.5%, with a 6% floor, 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 1, 2017. Additionally, the Organization must maintain a minimum unrestricted tangible net worth of at least $250,000 during the term of the loan. At June 30, 2017, the outstanding balance on the line of credit is $200,000.

## Note 6—Temporarily Restricted Net Assets

A summary of the activity related to temporarily restricted net assets for the year ended June 30, 2017 is as follows:

| | Balance at June 30, 2016 | Additions | Releases | Balance at June 30, 2017 |
|---|---|---|---|---|
| San Francisco Team | $ 283,456 | $ | $ (179,325) | $ 104,131 |
| Gateway Project | 52,642 | 37,500 | (60,142) | 30,000 |
| Santa Cruz Team | | 39,152 | | 39,152 |
| Dropdown Downtown | | 13,910 | | 13,910 |
| Data impact analysis | 43,644 | 55,000 | (91,580) | 7,064 |
| Phoenix Fund | 4,382 | | (1,964) | 2,418 |
| Other | 3,947 | | (3,947) | |
| **Totals** | **$ 388,071** | **$ 145,562** | **$ (336,958)** | **$ 196,675** |

A summary of the activity related to temporarily restricted net assets for the year ended June 30, 2016 is as follows:

| | Balance at June 30, 2015 | Additions | Releases | Balance at June 30, 2016 |
|---|---|---|---|---|
| San Francisco Team | $ | $ 553,000 | $ (269,544) | $ 283,456 |
| Gateway Project | | 52,642 | | 52,642 |
| Data impact analysis | | 68,000 | (24,356) | 43,644 |
| Phoenix Fund | | 16,247 | (11,865) | 4,382 |
| Other | 3,947 | | | 3,947 |
| **Totals** | **$ 3,947** | **$ 689,889** | **$ (305,765)** | **$ 388,071** |

## Note 7—Fundraising Events, Net

Revenue and expenses related to fundraising events during the year ended June 30, 2017 and 2016 are as follows:

| | 2017 | 2016 |
|---|---|---|
| Revenue | $ 70,656 | $ 24,916 |
| Expense | (36,037) | (1,689) |
| **Net** | **$ 34,619** | **$ 23,227** |

## 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 $62,401 and $60,597 for the years ended June 30, 2017 and 2016, respectively.

## 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, 2017.

## Note 10—Commitments

The Organization leases various office and meeting spaces thought 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:

| Year Ending June 30, | | |
|---|---|---|
| 2018 | $ | 174,363 |
| 2019 | | 207,510 |
| 2020 | | 207,510 |
| 2021 | | 198,882 |
| 2022 | | 198,882 |
| thereafter | | 33,147 |
| **Total** | **$** | **1,020,294** |

Rental expense for all operating leases, including required common area costs and utilities, for the years ended June 30, 2017 and 2016 was $153,137 and $222,164, respectively.

## Note 11—Recent Accounting Pronouncements

Fair Value Measurement—In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2015-07 (ASU 2015-07), *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*. ASU 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using net asset value per share as a practical expedient. For nonpublic business entities, ASU 2015-07 is effective for fiscal years beginning after December 15, 2016, with early adoption permitted. The Organization is currently evaluating the impact that the adoption of ASU 2017-07 will have on its financial statements.

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 the Organization in 2020; early adoption is permitted. The Organization is currently evaluating the impact that the adoption of ASU 2016-02 will have on its financial statements.

Net Assets Presentation—In August 2016, FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which is intended to improve how a not-for-profit entity classifies its net assets, as well as the information it presents in its financial statements about its liquidity and availability of resources, expenses and investment returns, and cash flows. The guidance replaces the three classes of net assets currently presented on the statement of financial position with two new classes of net assets, which are based on the existence or absence of donor-imposed restrictions. ASU No. 2016-14 includes specific disclosure requirements intended to improve a financial statement user's ability to assess an entity's available financial resources, along with its management of liquidity and liquidity risk. The guidance requires all not-for-profit entities to present expenses by both their natural and functional classification in a single location in the financial statements. ASU No. 2016-14 is effective for the Organization in 2019. Early adoption is permitted. The Organization is currently evaluating the impact that the adoption of ASU 2016-14 will have on its financial statements.

## Note 11—Recent Accounting Pronouncements—*Continued*

Revenue Recognition—In May 2014, FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, which supersedes most of the current revenue recognition requirements. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The guidance is currently effective for the Organization in 2019 (early adoption is not permitted). The guidance permits the use of either a retrospective or cumulative effect transition method. The Organization is evaluating whether this will have a material impact on its financial statements.

Inventory—In July 2015, FASB issued ASU No. 2015-11, *Simplifying the Measurement of Inventory*. ASU 2015-11 simplifies the subsequent measurement of inventory by requiring inventory to be measured at the lower of cost and net realizable value. ASU 2015-11 applies only to inventories for which cost is determined by methods other than last-in first-out and the retail inventory method. ASU 2015-11 is effective on a prospective basis for public companies for annual reporting periods beginning after December 15, 2016, including interim periods within those fiscal years. For all other entities, the ASU 2015-11 is effective on a prospective basis for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 31, 2017. Early adoption of ASU 2015-11 is permitted. The Organization is currently evaluating the impact that the adoption of ASU 2015-11 will have on its financial statements.

## Note 12—Subsequent Events

Management has evaluated all activities of Downtown Streets, Inc. through January 23, 2018, which is the date the consolidated financial statements were available to be issued, and concluded that no material subsequent events have occurred that would require adjustment to the consolidated financial statements or disclosure in the notes to the consolidated financial statements.

**Downtown Streets, Inc.**
**Schedule of Expenditure of Federal Awards**
**Year Ended June 30, 2017**

| 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-16-017 | 07/01/16-06/30/17 | $ | 413,823 |
| City of Palo Alto | 14.218 | S16160228 | 07/01/16-06/30/17 | | 282,386 |
| Sunnyvale Community Services | 14.218 | 1617-829560 | 07/01/16-06/30/17 | | 278,625 |
| City of Hayward | 14.218 | 16182 | 03/15/16-06/30/17 | | 169,572 |
| City of Hayward | 14.218 | 17120 | 07/01/16-06/30/17 | | 90,000 |
| **Total CDBG—Entitlement Grants Cluster, CFDA Nos. 14.218 and 14.225** | | | | | **1,234,406** |
| **Total U.S. Department of Housing and Urban Development** | | | | | **1,234,406** |
| **U.S. Department of Health and Human Services** | | | | | |
| Community Services Block Grant | | | | | |
| Passed through: | | | | | |
| City of Oakland | 93.569 | 10001402 | 01/01/17-06/30/17 | | 19,369 |
| **Total CFDA No. 93.569** | | | | | **19,369** |
| **Total U.S. Department of Health and Human Services** | | | | | **19,369** |
| **Total Expenditures of Federal Awards** | | | | **$** | **1,253,775** |

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, 2017**

### 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, 2017. 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, 2017**

There were no prior year audit findings.

Quigley & Miron

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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 Consolidated 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 consolidated financial statements of Downtown Streets, Inc. (Organization), which comprise the consolidated statement of financial position as of June 30, 2017, 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 and have issued our report thereon dated January 23, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the consolidated 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 consolidated 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 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 may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated 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.

Quigley & Miron

Campbell, California
January 23, 2018

Quigley & Miron

Certified Public Accountants

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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, 2017. 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, 2017.

**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.

Quigley & Miron

Campbell, California
January 23, 2018

**Downtown Streets, Inc.**
**Schedule of Findings and Questioned Costs**
**Year Ended June 30, 2017**

## A. Summary of Audit Results

1. The auditor's report expresses an unmodified opinion on whether the consolidated 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 consolidated 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, 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—Consolidated Financial Statements Audit

None

## C. Findings and Questioned Costs—Major Federal Award Program

None

**Downtown Streets, Inc.**
**Corrective Active Plan**
**Year Ended June 30, 2017**

As there were no audit findings or questioned costs for the year ended June 30, 2017, a corrective action plan is not required.