

**Audited Consolidated Financial Statements  
and Other Information**



June 30, 2016

**Quigley & Miron**

**Downtown Streets, Inc.**  
**Audited Consolidated 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 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, 2016, 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, 2016, 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, 2015 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated November 10, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

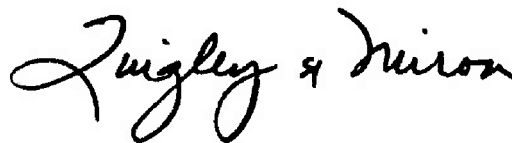
### **Other Matters**

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 November 15, 2016, 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.

Campbell, California  
November 15, 2016



**Downtown Streets, Inc.**  
**Consolidated Statement of Financial Position**  
**June 30, 2016**  
**(with comparative totals for 2015)**

	<u>2016</u>	<u>2015</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 58,720	\$ 99,733
Investments—Note 2	40,830	11,580
Contracts receivable	566,201	655,563
Grants receivable	36,168	13,550
Inventory	46,672	40,431
Prepaid expenses	56,552	14,357
Loan receivable from related party—Note 3	99,131	45,000
Property and equipment, net—Note 4	71,870	36,686
Deposits	26,577	15,691
	<u>          </u>	<u>          </u>
<b>Total Assets</b>	<b><u>\$ 1,002,721</u></b>	<b><u>\$ 932,591</u></b>
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued expenses	\$ 118,543	\$ 105,676
Employee benefits payable	105,523	69,785
Loan payable to related party—Note 3		97,190
Line of credit—Note 5		149,244
Rental deposits	8,300	8,300
	<u>          </u>	<u>          </u>
<b>Total Liabilities</b>	<b>232,366</b>	<b>430,195</b>
<b>Net Assets</b>		
Unrestricted	382,284	498,449
Temporarily restricted—Note 6	388,071	3,947
	<u>          </u>	<u>          </u>
<b>Total Net Assets</b>	<b>770,355</b>	<b>502,396</b>
	<u>          </u>	<u>          </u>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 1,002,721</u></b>	<b><u>\$ 932,591</u></b>

See notes to consolidated financial statements.

**Downtown Streets, Inc.**  
**Consolidated Statement of Activities**  
**Year Ended June 30, 2016**  
**(with comparative totals for 2015)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2016 Total</u>	<u>2015 Total</u>
<b>Public Support and Revenue</b>				
Government contracts	\$ 3,001,750	\$	\$ 3,001,750	\$ 2,709,582
Contributions	849,148	689,889	1,539,037	963,920
In-kind donations	55,299		55,299	82,773
Fee for service contracts				
—Note 3	36,394		36,394	95,100
Other contracts	161,222		161,222	178,992
Fundraising events, net				
—Note 7	23,227		23,227	44,170
Rental income—Note 10	42,946		42,946	51,518
Unrealized loss on investments, net	(6,412)		(6,412)	(2,292)
Loss on sale of equipment				(3,156)
Other income	18,199		18,199	12,815
Net assets released from restrictions	305,765	(305,765)		
<b>Total Public Support and Revenue</b>	<b>4,487,538</b>	<b>384,124</b>	<b>4,871,662</b>	<b>4,133,422</b>
<b>Expenses</b>				
Program services				
Palo Alto Team	592,643		592,643	564,238
San Jose Team	487,214		487,214	367,981
Sunnyvale Team	425,725		425,725	337,757
San Rafael Team	386,933		386,933	348,448
San Jose Streets Team	1,742,282		1,742,282	1,505,728
North County Team	145,763		145,763	355,304
San Francisco Team	270,367		270,367	
Hayward Team	35,902		35,902	
<b>Total Program Services</b>	<b>4,086,829</b>		<b>4,086,829</b>	<b>3,479,456</b>
Supporting services				
Management and general	407,991		407,991	460,393
Fundraising	108,883		108,883	114,198
<b>Total Expenses</b>	<b>4,603,703</b>		<b>4,603,703</b>	<b>4,054,047</b>
<b>Change in Net Assets</b>	<b>(116,165)</b>	<b>384,124</b>	<b>267,959</b>	<b>79,375</b>
<b>Net Assets at Beginning of Year</b>	<b>498,449</b>	<b>3,947</b>	<b>502,396</b>	<b>423,021</b>
<b>Net Assets at End of Year</b>	<b>\$ 382,284</b>	<b>\$ 388,071</b>	<b>\$ 770,355</b>	<b>\$ 502,396</b>

See notes to consolidated financial statements.

Downtown Streets, Inc.  
Consolidated Statement of Functional Expenses  
Year Ended June 30, 2016  
(with comparative totals for 2015)

Expenses	Program Services								Supporting Services			2016 Total	2015 Total	
	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
Salaries	\$ 286,244	\$ 93,377	\$ 240,290	\$ 167,387	\$ 922,516	\$ 106,195	\$ 169,009	\$ 24,481	\$ 2,009,499	\$ 186,105	\$ 57,255	\$ 243,360	\$ 2,252,859	\$ 1,848,420
Employee benefits	36,386	8,965	27,850	24,724	107,991	12,013	21,452	2,945	242,326	16,882	10,026	26,908	269,234	241,328
Payroll taxes	25,224	8,676	21,222	15,311	85,000	9,188	13,493	1,873	179,987	17,154	3,841	20,995	200,982	164,801
<b>Total Personnel Expenses</b>	<b>347,854</b>	<b>111,018</b>	<b>289,362</b>	<b>207,422</b>	<b>1,115,507</b>	<b>127,396</b>	<b>203,954</b>	<b>29,299</b>	<b>2,431,812</b>	<b>220,141</b>	<b>71,122</b>	<b>291,263</b>	<b>2,723,075</b>	<b>2,254,549</b>
Vouchers	146,117	100,958	100,954	114,403	191,851	1,618	38,666	1,138	695,705				695,705	848,831
Professional fees	22,961	193,511	11,782	8,265	91,290	9,804	5,686	785	344,084	30,279	19,793	50,072	394,156	230,936
Occupancy	18,336	22,340	6,246	18,737	98,919		4,510	250	169,338	55,412		55,412	224,750	187,435
Program outreach services	31,059	1,871	2,534	1,943	105,986	321	671	2,417	146,802	189	819	1,008	147,810	175,280
Supplies	8,956	26,567	4,361	11,677	40,898	1,929	6,742	950	102,080	28,249	1,012	29,261	131,341	111,079
Transportation	6,739	3,962	3,803	7,738	41,264	2,058	4,409	380	70,353	5,774	238	6,012	76,365	70,507
Telephone	6,087	1,921	3,141	4,974	21,497	1,002	1,344		39,966	8,027		8,027	47,993	39,228
Office expenses	2,424	10,596	629	4,751	5,654	688	622	353	25,717	12,071	3,507	15,578	41,295	43,511
Dues and subscriptions	625	7,563	1,027	940	1,812	214	535	64	12,780	16,340	7,830	24,170	36,950	23,462
Insurance	1,033	1,082	205	258	10,795				13,373	8,098		8,098	21,471	24,683
Printing	396	651	280	1,151	5,832	733	801	33	9,877	425	4,562	4,987	14,864	8,187
Depreciation		4,748			1,738				6,486	7,348		7,348	13,834	10,524
Meetings and training	56	426	479	3,732	3,088		1,190	233	9,204	2,743		2,743	11,947	3,745
Computer expenses			922	942	6,151		1,237		9,252	2,212		2,212	11,464	11,158
Interest										10,683		10,683	10,683	10,932
<b>Total Expenses</b>	<b>\$ 592,643</b>	<b>\$ 487,214</b>	<b>\$ 425,725</b>	<b>\$ 386,933</b>	<b>\$ 1,742,282</b>	<b>\$ 145,763</b>	<b>\$ 270,367</b>	<b>\$ 35,902</b>	<b>\$ 4,086,829</b>	<b>\$ 407,991</b>	<b>\$ 108,883</b>	<b>\$ 516,874</b>	<b>\$ 4,603,703</b>	<b>\$ 4,054,047</b>

See notes to consolidated financial statements.

**Downtown Streets, Inc.**  
**Consolidated Statement of Cash Flows**  
**Year Ended June 30, 2016**  
**(with comparative totals for 2015)**

	<u>2016</u>	<u>2015</u>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 267,959	\$ 79,375
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Unrealized loss on investments	6,332	2,292
Loss on sale of equipment		3,156
Donated stock	(35,269)	
Depreciation	13,834	10,524
(Increase) decrease in operating assets:		
Contracts receivable	89,362	(303,692)
Grants receivable	(22,618)	(13,550)
Inventory	(6,241)	(12,481)
Prepaid expenses	(42,195)	5,726
Deposits	(10,886)	647
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	12,867	45,025
Employee benefits payable	35,738	5,587
<b>Net Cash Provided by (Used in) Operating Activities</b>	<u>308,883</u>	<u>(177,391)</u>
<b>Cash Flows from Investing Activities</b>		
Purchases of property and equipment	(49,018)	(15,731)
Proceeds from sale of equipment		2,000
Purchases of investments	(313)	(16,922)
Proceeds from sale of investments		3,050
Loan receivable from related party	(182,131)	(55,000)
Repayment of loan receivable from related party	128,000	35,000
<b>Net Cash Used in Investing Activities</b>	<u>(103,462)</u>	<u>(47,603)</u>
<b>Cash Flows from Financing Activities</b>		
Proceeds from loan payable to related party		97,190
Payments on loan payable to related party	(97,190)	(70,000)
Proceeds from line of credit	150,357	149,244
Payments on line of credit	(299,601)	(99,796)
<b>Net Cash Provided by (Used in) Financing Activities</b>	<u>(246,434)</u>	<u>76,638</u>
<b>Decrease in Cash and Cash Equivalents</b>	<u>(41,013)</u>	<u>(148,356)</u>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<u>99,733</u>	<u>248,089</u>
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 58,720</u>	<u>\$ 99,733</u>

See notes to consolidated financial statements.



**Downtown Streets, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2016**  
**(with comparative totals for 2015)**

**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, 2016 and 2015, the Organization had no permanently restricted net assets.

**Downtown Streets, Inc.**

**Notes to Consolidated Financial Statements—Continued**

**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, 2016 and 2015. 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, 2016 and 2015 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, 2016 and 2015 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, 2016 and 2015, 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 grants and 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 grants receivable.

**Downtown Streets, Inc.**

**Notes to Consolidated Financial Statements—Continued**

**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 \$55,299 and \$82,773 for the years ended June 30, 2016 and 2015, 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:

	<u>2016</u>	<u>2015</u>
Statement of Financial Position		
Inventory	\$ 6,241	\$
Statement of Functional Expenses		
Supplies	22,044	44,077
Program outreach services	19,838	
Professional fees	7,176	26,506
Occupancy		12,190
<b>Totals</b>	<b><u>\$ 55,299</u></b>	<b><u>\$ 82,773</u></b>

Additionally, a substantial number of volunteers have donated significant amounts of time to the Organization and its programs. Such donated services are not reflected in the consolidated financial statements since these services do not meet the above criteria for recognition as contributed services.

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, 2016 and 2015, the Organization paid no income taxes and paid interest expense of \$10,683 and \$10,932, respectively.

Reclassifications—Certain amounts in 2015 have been reclassified to conform with the 2016 consolidated financial statement presentation.

Comparative Totals for 2015—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, 2015, from which the summarized information was derived.

**Downtown Streets, Inc.**  
**Notes to Consolidated Financial Statements—Continued**

**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.

Assets and liabilities carried at fair value at June 30, 2016 and 2015, consist solely of publicly traded securities, considered to have Level 1 inputs.

**Note 3—Related Party Transactions**

During the years ended June 30, 2016 and 2015, the Organization provided administrative and fundraising services to Peninsula Healthcare Connection, Inc. (PHC), a separate nonprofit organization with one common officer to Downtown Streets, Inc. During the years ended June 30, 2016 and 2015, the Organization received \$21,009 and \$80,339, respectively, for these services; these amounts are reported in the fee for service contract caption in the consolidated statement of activities.

Additionally, during the years ended June 30, 2016 and 2015, the Organization paid \$183,687 and \$51,402, respectively to PHC for professional services provided to the Organization.

During the years ended June 30, 2016 and 2015, the Organization made loans to PHC for cash flow purposes, with no specified repayment terms. Such loan balances at June 30, 2016 and 2015 amounted to \$99,131 and \$45,000, respectively.

During the years ended June 30, 2016 and 2015, 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, 2016 and 2015 amounted to \$-0- and \$97,190, respectively.

**Downtown Streets, Inc.**  
**Notes to Consolidated Financial Statements—Continued**

**Note 4—Property and Equipment, Net**

Property and equipment, net at June 30, 2016 and 2015 consists of the following:

	<u>2016</u>	<u>2015</u>
Vehicles	\$ 106,018	\$ 57,000
Office furniture and equipment	9,009	9,009
	<u>115,027</u>	<u>66,009</u>
Less accumulated depreciation	<u>(43,157)</u>	<u>(29,323)</u>
<b>Net</b>	<b><u>\$ 71,870</u></b>	<b><u>\$ 36,686</u></b>

**Note 5—Line of Credit**

During the year ended June 30, 2014, the Organization entered into a \$100,000 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 was renewed in December 2014, with an increase in available credit to \$150,000 with other terms remaining the same. The line of credit was again renewed in October 2015, with an increase in available credit to \$200,000, and a requirement that the Organization maintain a minimum unrestricted tangible net worth of at least \$250,000 during the term of the loan. The line of credit was again renewed in November 2016 with a maturity date of December 1, 2017, with all other terms remaining unchanged.

**Note 6—Temporarily Restricted Net Assets**

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

	<u>Balance at June 30, 2015</u>	<u>Additions</u>	<u>Releases</u>	<u>Balance at June 30, 2016</u>
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
<b>Totals</b>	<b><u>\$ 3,947</u></b>	<b><u>\$ 689,889</u></b>	<b><u>\$ (305,765)</u></b>	<b><u>\$ 388,071</u></b>

**Downtown Streets, Inc.**  
**Notes to Consolidated Financial Statements—Continued**

**Note 6—Temporarily Restricted Net Assets—Continued**

A summary of the activity related to temporarily restricted net assets for the year ended June 30, 2015 is as follows:

	<u>Balance at June 30, 2014</u>	<u>Additions</u>	<u>Releases</u>	<u>Balance at June 30, 2015</u>
Destination: Home	\$ 116,667	\$ 75,000	\$ (191,667)	\$
Van purchase	2,750	250	(3,000)	
San Rafael program	250	20,000	(20,250)	
Kartma		50,000	(50,000)	
Transitional housing		10,000	(10,000)	
Other	4,834	56,172	(57,059)	3,947
<b>Totals</b>	<b><u>\$ 124,501</u></b>	<b><u>\$ 211,422</u></b>	<b><u>\$ (331,976)</u></b>	<b><u>\$ 3,947</u></b>

**Note 7—Fundraising Events, Net**

Revenue and expenses related to fundraising events during the year ended June 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Revenue	\$ 24,916	\$ 46,434
Expense	(1,689)	(2,264)
<b>Net</b>	<b><u>\$ 23,227</u></b>	<b><u>\$ 44,170</u></b>

**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 90% of their annual salaries under the Plan, subject to Internal Revenue Service limitations. The Plan provides for matching of 100% of deferrals. Employees vest immediately in all voluntary contributions to the Plan. The Organization's contribution to the Plan was \$60,597 and \$42,455 for the years ended June 30, 2016 and 2015, 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.

**Downtown Streets, Inc.**  
**Notes to Consolidated Financial Statements—Continued**

**Note 9—Contingencies—Continued**

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, 2016.

**Note 10—Commitments**

The Organization leases various office and meeting spaces throughout its service area, a large passenger van, 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>	
2017	\$ 194,945
2018	41,667
2019	<u>623</u>
<b>Total</b>	<b>\$ <u>237,235</u></b>

Rental expense for all operating leases, including required common area costs and utilities, for the years ended June 30, 2016 and 2015 was \$222,164 and \$185,780, respectively.

The Organization subleases a portion of its primary administrative offices to PHC on an informal basis; such rental income received during the years ended June 30, 2016 and 2015 totaled \$10,000 and \$15,000, respectively.

**Note 11—Subsequent Events**

Management has evaluated all activities of Downtown Streets, Inc. through November 15, 2016, 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, 2016

Federal Grantor/ Pass-through Grantor Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Award Period	Federal Expenditures
<b>U.S. Department of Housing and Urban Development</b>				
CDBG—Entitlement Grants Cluster				
Community Development Block Grants/Entitlement Grants				
Passed through:				
City of San Jose	14.218	CPS-13-009B	07/01/15-06/30/16	\$ 710,224
City of San Jose	14.218	CPS-13-009	07/01/14-06/30/15	3,107
City of Palo Alto	14.218	S16160228	07/01/15-06/30/16	290,723
Sunnyvale Community Services	14.218	1516-829560	07/01/15-06/30/16	277,000
City of Hayward	14.218	16182	03/15/16-06/30/17	34,417
<b>Total CDBG—Entitlement Grants Cluster, CFDA Nos. 14.218 and 14.225</b>				<b>1,315,471</b>
<b>Total U.S. Department of Housing and Urban Development</b>				<b>1,315,471</b>
<b>Total Expenditures of Federal Awards</b>				<b>\$ 1,315,471</b>

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, 2016**

**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, 2016. 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, 2016**

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 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, 2016, 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 November 15, 2016.

**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.

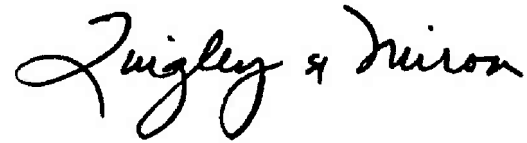
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not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

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

Campbell, California  
November 15, 2016

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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, 2016. 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, 2016.

### **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.

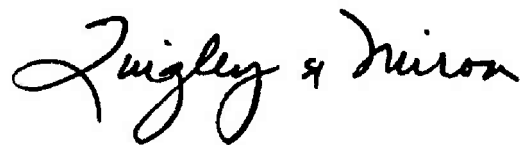
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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  
November 15, 2016



**Downtown Streets, Inc.**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2016**

**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.
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, 2016**

As there were no audit findings or questioned costs for the year ended June 30, 2016, a corrective action plan is not required.