

Audited Consolidated Financial Statements



June 30, 2014

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 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, 2014, 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 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 audits 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, 2014, 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

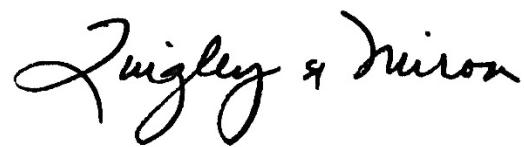
We have previously audited Downtown Streets, Inc.'s June 30, 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 28, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the 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 U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the consolidated financial statements. The Schedule of Expenditures of Federal Awards 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 December 12, 2014, on our consideration of Downtown Streets, Inc.'s internal control over financial reporting, and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Downtown Streets, Inc.'s internal control over financial reporting and compliance.



Downtown Streets, Inc.
Consolidated Statement of Financial Position
June 30, 2014
(with comparative totals for 2013)

	<u>2014</u>	<u>2013</u>
Assets		
Cash and cash equivalents	\$ 248,089	\$ 66,052
Contracts receivable	251,871	194,745
Grants receivable	100,000	75,000
Inventory	27,950	
Prepaid expenses	20,083	32,994
Loan receivable from related party—Note 2	25,000	25,000
Property and equipment, net—Note 3	36,635	18,851
Deposits	16,338	6,722
Total Assets	<u>\$ 725,966</u>	<u>\$ 419,364</u>
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 60,651	\$ 97,013
Employee benefits payable	64,198	26,385
Loan payable to related party—Note 2	70,000	
Line of credit—Note 4	99,796	
Deferred concert revenue—Note 6		112,195
Rental deposits	8,300	8,100
Total Liabilities	<u>302,945</u>	<u>243,693</u>
Net Assets		
Unrestricted	298,520	27,348
Temporarily restricted—Note 5	124,501	148,323
Total Net Assets	<u>423,021</u>	<u>175,671</u>
Total Liabilities and Net Assets	<u>\$ 725,966</u>	<u>\$ 419,364</u>

See notes to consolidated financial statements.

Downtown Streets, Inc.
Consolidated Statement of Activities
Year Ended June 30, 2014
(with comparative totals for 2013)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2014 Total</u>	<u>2013 Total</u>
Public Support and Revenue				
Government contracts	\$ 1,642,237	\$	\$ 1,642,237	\$ 814,621
Contributions	438,017	254,255	692,272	500,246
In-kind contributions				
—Note 1	64,791		64,791	79,100
Fee for service contract				
—Note 2	65,519		65,519	50,000
Other contracts	235,700		235,700	264,241
Special event, net				
—Note 6	386,544		386,544	
Rental income—Note 9	60,149		60,149	38,275
Other income	3,163		3,163	4,114
Net assets released from restrictions	278,077	(278,077)		
Total Public Support, Revenue, and Reclassifications	3,174,197	(23,822)	3,150,375	1,750,597
Expenses				
Program services				
Palo Alto Team	548,472		548,472	377,418
San Jose Team	390,479		390,479	700,149
Sunnyvale Team	300,462		300,462	236,384
San Rafael Team	255,351		255,351	
San Jose Streets Team	784,600		784,600	
Total Program Services	2,279,364		2,279,364	1,313,951
Supporting services				
Management and general	448,604		448,604	275,342
Fundraising	175,057		175,057	119,177
Total Expenses	2,903,025		2,903,025	1,708,470
Increase (Decrease) in Net Assets	271,172	(23,822)	247,350	42,127
Net Assets at Beginning of Year	27,348	148,323	175,671	133,544
Net Assets at End of Year	\$ 298,520	\$ 124,501	\$ 423,021	\$ 175,671

See notes to consolidated financial statements.

Downtown Streets, Inc.
Consolidated Statement of Functional Expenses
Year Ended June 30, 2014
(with comparative totals for 2013)

Expenses	Program Services					Supporting Services			2014 Total	2013 Total	
	Palo Alto Team	San Jose Team	Sunnyvale Team	San Rafael Team	San Jose Streets Team	Total	Management and General	Fundraising			Total
Salaries	\$ 224,306	\$ 149,076	\$ 171,616	\$ 106,924	\$ 419,208	\$ 1,071,130	\$ 155,950	\$ 126,565	\$ 282,515	\$ 1,353,645	\$ 702,324
Employee benefits	22,455	16,105	18,982	15,905	44,260	117,707	13,669	12,494	26,163	143,870	58,387
Payroll taxes	21,838	15,035	16,360	10,034	38,856	102,123	14,442	11,872	26,314	128,437	77,373
Total Personnel Expenses	268,599	180,216	206,958	132,863	502,324	1,290,960	184,061	150,931	334,992	1,625,952	838,084
Vouchers	195,319	77,018	75,833	89,018	145,691	582,879	1,814		1,814	584,693	384,249
Professional fees	16,672	14,021	9,210	5,423	42,080	87,406	80,212	9,847	90,059	177,465	109,874
Occupancy	14,765	55,784	320	4,019	18,670	93,558	44,435		44,435	137,993	103,957
Supplies	3,006	15,851	1,383	7,187	26,388	53,815	16,837	342	17,179	70,994	63,286
Program outreach services	29,214	14,808	2,365	4,014	1,529	51,930	784		784	52,714	20,484
Transportation	5,307	15,527	3,865	6,535	9,756	40,990	5,710	275	5,985	46,975	32,822
Computer expenses	1,338	2,261	8	2,623	7,296	13,526	32,317		32,317	45,843	53,714
Telephone	2,556	1,486	76	162	4,351	8,631	19,973	550	20,523	29,154	16,567
Office expenses	1,921	1,539	142	746	789	5,137	16,048	2,437	18,485	23,622	16,196
Dues and subscriptions		5,754		917	2,300	8,971	12,837	1,725	14,562	23,533	15,480
Program-related expenses				348	18,457	18,805	75	3,495	3,570	22,375	
Insurance	1,362	2,897			3,732	7,991	6,472		6,472	14,463	14,454
Printing	35	302	69	523	822	1,751	3,627	4,984	8,611	10,362	4,192
Other expenses	7,239	2,391				9,630			9,630	9,630	11,724
Depreciation							9,611		9,611	9,611	5,701
Meetings and training	1,139	624	233	973	415	3,384	5,350	471	5,821	9,205	6,569
Interest							8,441		8,441	8,441	11,117
Total Expenses	\$ 548,472	\$ 390,479	\$ 300,462	\$ 255,351	\$ 784,600	\$ 2,279,364	\$ 448,604	\$ 175,057	\$ 623,661	\$ 2,903,025	\$ 1,708,470

See notes to consolidated financial statements.

Downtown Streets, Inc.
Consolidated Statement of Cash Flows
Year Ended June 30, 2014
(with comparative totals for 2013)

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities		
Increase in net assets	\$ 247,350	\$ 42,127
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	9,611	5,701
(Increase) decrease in operating assets:		
Contracts receivable	(57,126)	(132,743)
Grants receivable	(25,000)	(30,000)
Inventory	(27,950)	
Prepaid expenses	12,911	(21,259)
Deposits	(9,616)	573
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(36,362)	65,187
Employee benefits payable	37,813	15,980
Rental deposits	200	8,100
Deferred concert revenue	(112,195)	112,195
	<u>39,636</u>	<u>65,861</u>
Net Cash Provided by Operating Activities	39,636	65,861
Cash Flows from Investing Activities		
Purchase of vehicle and office equipment	(27,395)	
Loan receivable from related party	(25,000)	(25,000)
Repayment of loan receivable from related party	25,000	
	<u>(27,395)</u>	<u>(25,000)</u>
Net Cash Used in Investing Activities	(27,395)	(25,000)
Cash Flows from Financing Activities		
Proceeds from line of credit	99,796	
Proceeds from loan payable to related party	90,000	
Payments on loan payable to related party	(20,000)	
	<u>169,796</u>	
Net Cash Provided by Financing Activities	169,796	
Increase in Cash and Cash Equivalents	182,037	40,861
Cash and Cash Equivalents at Beginning of Year	66,052	25,191
Cash and Cash Equivalents at End of Year	<u>\$ 248,089</u>	<u>\$ 66,052</u>
Supplementary Disclosures		
Income taxes paid	\$	\$
Interest paid	<u>\$ 8,441</u>	<u>\$ 11,117</u>

See notes to consolidated financial statements.

Downtown Streets, Inc.
Notes to Consolidated Financial Statements
June 30, 2014
(with comparative totals for 2013)

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, 2014 and 2013, 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, 2014 and 2013. Generally, the Organization’s information returns remain open for examination 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, 2014 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, 2014 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, 2014 and 2013, 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. Contributed 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. Contributions of office space and tangible assets are recognized at fair value when received.

In-kind donations of \$64,791 and \$79,100 for the years ended June 30, 2014 and 2013, respectively, have been recorded in the contributions 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>2014</u>	<u>2013</u>
Statement of Financial Position		
Inventory	\$ 27,950	\$
Statement of Functional Expenses		
Occupancy	15,600	15,600
Computer expenses	15,361	36,000
Supplies	5,880	26,500
Vouchers		1,000
	<u>Totals</u>	
	<u>\$ 64,791</u>	<u>\$ 79,100</u>

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.

Reclassifications—Certain amounts in 2013 have been reclassified to conform with the 2014 consolidated financial statement presentation.

Comparative Totals for 2013—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 financial statements for the year ended June 30, 2013, from which the summarized information was derived.

Downtown Streets, Inc.

Notes to Consolidated Financial Statements—Continued

Note 2—Related Party Transactions

During the year ended June 30, 2014 and 2013, 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, 2014 and 2013, the Organization received \$62,679 and \$50,000, 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, 2014 and 2013, the Organization paid \$56,861 and \$34,000, respectively to PHC for professional services provided to the Organization.

In each of the years ended June 30, 2014 and 2013, the Organization loaned \$25,000 to PHC for cash flow purposes, with no specified repayment terms. The loan outstanding at June 30, 2013 was repaid during the year ended June 30, 2014.

During the year ended June 30, 2014, 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. The outstanding balance as of June 30, 2014 was \$70,000.

Note 3—Property and Equipment, Net

Property and equipment, net at June 30, 2014 and 2013 consists of the following:

	<u>2014</u>	<u>2013</u>
Vehicles	\$ 50,277	\$ 28,507
Office furniture and equipment	5,625	
	<u>55,902</u>	<u>28,507</u>
Less accumulated depreciation	<u>(19,267)</u>	<u>(9,656)</u>
Net	<u>\$ 36,635</u>	<u>\$ 18,851</u>

Note 4—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 6%, requiring monthly payments of interest only, maturing on December 3, 2014. The line of credit balance at June 30, 2014 was \$99,796.

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

Note 5—Temporarily Restricted Net Assets

A summary of the activity related to temporarily restricted net assets for the year ended June 30, 2014 is as follows:

	<u>Balance at June 30, 2013</u>	<u>Additions</u>	<u>Releases</u>	<u>Balance at June 30, 2014</u>
Destination: Home	\$ 126,823	\$ 200,000	\$ (210,156)	\$ 116,667
Van purchase	20,000	2,750	(20,000)	2,750
Palo Alto program		25,000	(25,000)	
San Rafael program		5,250	(5,000)	250
Transitional housing		10,000	(10,000)	
Other	1,500	11,255	(7,921)	4,834
Totals	<u>\$ 148,323</u>	<u>\$ 254,255</u>	<u>\$ (278,077)</u>	<u>\$ 124,501</u>

A summary of the activity related to temporarily restricted net assets for the year ended June 30, 2013 is as follows:

	<u>Balance at June 30, 2012</u>	<u>Additions</u>	<u>Releases</u>	<u>Balance at June 30, 2013</u>
Destination: Home	\$ 53,299	\$ 200,000	\$ (126,476)	\$ 126,823
Van purchase		20,000		20,000
Other		1,500		1,500
Totals	<u>\$ 53,299</u>	<u>\$ 221,500</u>	<u>\$ (126,476)</u>	<u>\$ 148,323</u>

Note 6—Special Event, Net

On July 27, 2013, the Organization held a major fundraising event featuring Joan Baez, Jackson Browne and Emmylou Harris in concert (Concert). Certain expenses related to the Concert, amounting to \$8,905, were incurred prior to June 30, 2013 and were recorded as prepaid expenses in the statement of financial position. Similarly, certain revenues related to the Concert, amounting to \$112,195, were received prior to June 30, 2013 and were recorded as deferred concert revenue. All deferred revenue amounts at June 30, 2013 were recognized in the consolidated statement of activities for the year ended June 30, 2014.

Revenue and expenses related to the Concert are as follows:

Revenue	\$ 432,450
Expense	<u>(45,906)</u>
Net	<u>\$ 386,544</u>

Downtown Streets, Inc.

Notes to Consolidated Financial Statements—Continued

Note 7—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 \$15,467 and \$13,448 for the years ended June 30, 2014 and 2013, respectively.

Note 8—Contingent Liabilities

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, 2014.

Note 9—Commitments

The Organization leases various office and meeting spaces throughout its service area. All such leases at June 30, 2014 had remaining terms of less than one year with the exception of the lease for its primary administrative offices. The future minimum annual rental commitments by year for this lease are as follows:

<u>Year Ending June 30,</u>	
2015	\$ 84,290
2016	89,099
2017	87,517
2018	11,816
	<hr/>
Total	\$ <u>272,722</u>

Rental expense for the years ended June 30, 2014 and 2013 for all operating leases was \$118,325 and \$77,419, respectively. The Organization subleases a portion of its primary administrative offices to PHC on an informal basis at a monthly rental amount of \$1,000 per month; rental income received during the year ended June 30, 2014 totaled \$2,000.

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

Note 10—Subsequent Events

In July 2014, the Organization paid the outstanding balance of \$99,796 on its line of credit at June 30, 2014. In December, 2014, the Organization renewed its \$100,000 line of credit.

Management has evaluated all activities of Downtown Streets, Inc. through December 12, 2014, which is the date the consolidated financial statements were available to be issued, and concluded that no other 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, 2014

<u>Federal Grantor/ Pass-through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Award Period</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development				
Community Development Block/ Entitlement Grants				
Passed through:				
City of San Jose	14.218	CPS-13-009	07/01/13-06/30/14	\$ 576,206
City of Palo Alto	14.218	C12142369	07/01/13-06/30/14	263,254
			Total CFDA 14.218	839,460
			Total Expenditures of Federal Awards	\$ 839,460

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, 2014

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, 2014. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 OMB Circular A-122, *Cost Principles of Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Downtown Streets, Inc.
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2014

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, 2014, 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 December 12, 2014.

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 "Zwigley & Miron". The signature is written in a cursive, flowing style.

Campbell, California
December 12, 2014

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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 OMB Circular A-133

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) Circular A-133 *Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2014. 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2014.

Report on Internal Control over Compliance

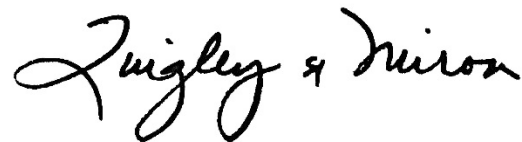
The Organization's management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with 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 OMB Circular A-133, 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Campbell, California
December 12, 2014

Downtown Streets, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

A. Summary of Audit Results

1. The auditor's report expresses an unmodified opinion on the consolidated financial statements of Downtown Streets, Inc..
2. No material weaknesses or significant deficiencies relating to internal control over financial reporting 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 relating to internal control over major programs were identified during the audit.
5. The auditor's report on compliance for the major federal award program of Downtown Streets, Inc. expresses an unmodified opinion.
6. There are no audit findings that are required to be reported in accordance with OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, Section 510(a).
7. The program tested as a major program was the Department of Housing and Urban Development, Community Development Block/Entitlement Grants, CFDA No. 14.218.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Downtown Streets, Inc. did not qualify as 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
June 30, 2014

As there were no audit findings or questioned costs for the year ended June 30, 2014, a corrective action plan is not required.