

**Audited Financial Statements
and Other Information**



June 30, 2021

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, 2021, 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 financial position of Downtown Streets, Inc., dba Downtown Streets Team as of June 30, 2021, 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, 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 8, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020 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 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 December 15, 2021, 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
December 15, 2021



Downtown Streets, Inc.
Consolidated Statement of Financial Position
June 30, 2021
(with comparative totals for 2020)

	<u>2021</u>	<u>2020</u>
Assets		
Cash and cash equivalents	\$ 440,885	\$ 425,423
PPP advance—restricted cash		150,288
Federal and government grants receivable	2,067,694	1,435,070
Grants and contributions receivable	50,513	365,827
Other receivables	82,994	193,593
Prepaid expenses	207,290	217,646
Property and equipment, net—Note 3	166,243	116,821
Deposits	60,215	65,190
Total Assets	<u>\$ 3,075,834</u>	<u>\$ 2,969,858</u>
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 313,898	\$ 134,869
Salaries and employee benefits payable	469,320	198,650
Line of credit—Note 4	450,000	
PPP advance—Note 5		150,288
PPP loan—Note 5	110,575	
Deferred revenue	8,429	34,839
Rental deposits	7,000	13,052
Total Liabilities	<u>1,359,222</u>	<u>531,698</u>
Net Assets		
Without donor restrictions	912,253	1,792,977
With donor restrictions — Note 6	804,359	645,183
Total Net Assets	<u>1,716,612</u>	<u>2,438,160</u>
Total Liabilities and Net Assets	<u>\$ 3,075,834</u>	<u>\$ 2,969,858</u>

See notes to financial statements.

Downtown Streets, Inc.
Consolidated Statement of Activities
Year Ended June 30, 2021
(with comparative totals for 2020)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2021 Total</u>	<u>2020 Total</u>
Operating Activities				
Public Support and Revenue				
Federal grants	\$ 1,867,939	\$	\$ 1,867,939	\$ 1,548,277
Government grants	5,589,133	180,000	5,769,133	4,067,986
Grants and contributions	1,956,536	457,069	2,413,605	3,472,466
PPP grant—Note 5	39,713		39,713	957,856
In-kind donations	15,431		15,431	38,627
Fee for service	95,941		95,941	76,252
Fundraising events				
Gross revenue				83,312
Less direct benefit to donors				(60,614)
Fundraising Events, Net		637,069		22,698
Other income	30,129		30,129	9,048
Net assets released from restrictions	477,893	(477,893)		
Total Public Support and Revenue	10,072,715	159,176	10,231,891	10,193,210
Expenses				
Program services	9,170,465		9,170,465	7,928,315
Supporting services				
Management and general	1,458,463		1,458,463	1,336,706
Fundraising	453,783		453,783	407,350
Total Expenses	11,082,711		11,082,711	9,672,371
Change in Net Assets From Operations	(1,009,996)	159,176	(850,820)	520,839
Nonoperating Activities				
Rental income—Note 10	129,272		129,272	146,711
Total Nonoperating Activities	129,272		129,272	146,711
Change in Net Assets	(880,724)	159,176	(721,548)	667,550
Net Assets at Beginning of Year	1,792,977	645,183	2,438,160	1,770,610
Net Assets at End of Year	\$ 912,253	\$ 804,359	\$ 1,716,612	\$ 2,438,160

See notes to financial statements.

Downtown Streets, Inc.
Consolidated Statement of Functional Expenses
Year Ended June 30, 2021
(with comparative totals for 2020)

	Supporting Services			2021 Total	2020 Total
	Program Services	Management and General	Fundraising		
Expenses					
Salaries	\$ 4,901,931	\$ 664,186	\$ 337,430	\$ 5,903,547	\$ 4,798,913
Employee benefits— Note 7	525,333	110,723	35,519	671,575	661,440
Payroll taxes	428,184	59,730	28,492	516,406	385,718
Total Personnel Expenses	5,855,448	834,639	401,441	7,091,528	5,846,071
Vouchers	1,648,249			1,648,249	1,746,954
Occupancy	433,736	183,086		616,822	584,960
Professional fees	398,592	148,029	9,358	555,979	515,049
Supplies	285,682	11,075	1,675	298,432	211,814
Legal settlement— Note 12		170,000		170,000	
Transportation	153,836	1,785	56	155,677	137,170
Telephone	72,348	23,087	1,498	96,933	83,283
Insurance	71,749	22,782		94,531	79,935
Office expenses	67,625	12,909	12,719	93,253	91,600
Dues and subscriptions	21,600	35,711	12,275	69,586	83,492
Depreciation	47,972			47,972	48,274
Program outreach services	46,701			46,701	125,363
Computer expenses	31,021			31,021	45,590
Printing	12,282	321	14,761	27,364	10,906
Meetings and trainings	16,253	274		16,527	41,532
Interest	7,371	6,515		13,886	20,378
Bad debt expense		8,250		8,250	
Cost of direct benefits to donors					60,614
Total Expenses by Function	9,170,465	1,458,463	453,783	11,082,711	9,732,985
Less expenses included with revenues on the statement of activities					
Cost of direct benefits to donors					(60,614)
Total Expenses	\$ 9,170,465	\$ 1,458,463	\$ 453,783	\$ 11,082,711	\$ 9,672,371

See notes to consolidated financial statements.

Downtown Streets, Inc.
Consolidated Statement of Cash Flows
Year Ended June 30, 2021
(with comparative totals for 2020)

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (721,548)	\$ 667,550
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	47,972	48,274
Changes in operating assets:		
Federal and government grants receivable	(632,624)	305,205
Grants and contributions receivable	315,314	(265,122)
Other receivables	110,599	(147,482)
Prepaid expenses	10,356	(39,201)
Deposits	4,975	(18,088)
Changes in operating liabilities:		
Accounts payable and accrued expenses	179,029	(157,953)
Salaries and employee benefits payable	270,670	89,134
PPP advance	(150,288)	150,288
Deferred revenue	(26,410)	26,506
Rental Deposits	(6,052)	
Net Cash Provided by (Used in) Operating Activities	(598,007)	659,111
Cash Flows from Investing Activities		
Purchases of property and equipment	(97,394)	(36,850)
Loan to related party		231,515
Repayments of loan receivable from related party		(231,515)
Net Cash Used in Investing Activities	(97,394)	(36,850)
Cash Flows from Financing Activities		
Proceeds from PPP loan	110,575	
Proceeds from line of credit	450,000	
Payments on line of credit		(319,862)
Net Cash Provided by (Used in) Financing Activities	560,575	(319,862)
Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	(134,826)	302,399
Cash, Cash Equivalents, and Restricted Cash at Beginning of Year	575,711	273,312
Cash, Cash Equivalents, and Restricted Cash at End of Year	\$ 440,885	\$ 575,711

See notes to financial statements.

Downtown Streets, Inc.
Notes to Consolidated Financial Statements
June 30, 2021
(with comparative totals for 2020)

Note 1—Organization and Summary of Significant Accounting Policies

Organization—Downtown Streets, Inc., dba Downtown Streets Team, (Organization) was incorporated in 2005 as a California nonprofit corporation dedicated to eliminating current and preventing future homelessness. The Organization began in 2005 in Palo Alto, California and currently operates in 15 cities spanning seven counties in the Bay Area. Since 2005, the Organization has assisted over 2,000 program participants (Team Members) in securing employment and/or finding permanent housing. The Organization has a subsidiary, Streets Team Enterprises, which offers low-barrier employment to this underserved population. The Organization is principally funded through contributions and government contracts.

Program Services—Downtown Streets Team builds teams that restore dignity, inspire hope, and provide a pathway to recover from homelessness. Team Members volunteer in their communities, removing debris from streets, parks, and waterways. In exchange for volunteering to clean up their communities, Team Members are provided with a voucher that they may use on food, medicine, clothing, hygiene supplies, transportation, storage, and communication, among other things. Team members have access to case management and employment services to help them eliminate the barriers that keep them from jobs and housing. Through their efforts, Team Members regain self-worth and benefit from a sense of community which propels them to a higher quality of life and out of homelessness.

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

Financial Statement Presentation—The consolidated financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Organization recognizes grants and contributions as revenue in the period received. Contributions and net assets are classified on the existence or absence of donor-imposed restrictions. The net assets of the Organization and changes therein are classified and reported as follows:

Net assets without donor restrictions—Net assets that are not subject to donor-imposed stipulations and that may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization’s management and the board of directors.

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

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

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

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, 2021 and 2020. 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.

Recently Adopted Accounting Principles

Contributions—In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU No. 2018-08 clarifies and improves the scope of the accounting guidance for contributions received and contributions made. The clarifications and improved scope assist entities in 1) evaluating whether transactions should be accounted for as contributions (nonreciprocal) or as exchange (reciprocal) transactions, and 2) determining whether a contribution is conditional. The clarified guidance applies to all entities that receive or make contributions (grants). ASU No. 2018-08 has been adopted by the Organization for the year ended June 30, 2020. The Organization has determined that adopting ASU No. 2018-08 has had no material effect on the consolidated financial statements.

Revenue Recognition—In May 2014, FASB issued 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 Organization has adopted ASU No. 2014-09 for the year ended June 30, 2020 and noted that there was no material effect on the consolidated financial statements.

Restricted Cash—In February 2016, FASB issued (ASU) No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. ASU No. 2016-18 clarifies how entities should present restricted cash and restricted cash equivalents in the statement of cash flows. The guidance requires entities to present the change in restricted cash and restricted cash equivalents with cash and cash equivalents to reconcile amounts on the balance sheet to the statement of cash flows. Entities are required to disclose the nature of the restrictions, as well as reconcile the totals in the statement of cash flows to cash, cash equivalents, restricted cash, and restricted cash equivalents on the balance sheet when these are shown in more than one line item. Organization has adopted ASU No. 2016-18 for the year ended June 30, 2020, and has adjusted the presentation of the consolidated financial statements accordingly.

Cash, Cash Equivalents, and Restricted Cash—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. Restricted cash consist of funds from the PPP advance for which qualifying expenditures have not yet been met (Note 5).

Downtown Streets, Inc.

Notes to Consolidated Financial Statements—Continued

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

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position to the cash, cash equivalents, and restricted cash shown in the statement of cash flows at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 440,885	\$ 425,423
PPP advance—restricted cash		150,288
Totals	<u>\$ 440,885</u>	<u>\$ 575,711</u>

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, 2021 and 2020 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, 2021 and 2020, 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.

Federal Grants—Revenues from federal grants 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 federal grants receivable. Amounts received in excess of amounts expended are recorded as deferred revenue.

Government Grants—Revenues from government grants are reported as increases in unrestricted net assets as allowable expenditures under such agreements are incurred or as services are performed, based on the terms of each grant. The amounts expended in excess of reimbursements are reported as government grants receivable. Amounts received in excess of amounts expended are recorded as deferred revenue.

Grants and contributions—The Organization recognizes all unconditional grants and contributions and promises to give in the period notified. Grants and contributions are reported as increases without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Unconditional promises to give are recorded as grants and contributions receivable at net realizable value.

Fee for service—Fees are recognized at the time services are provided.

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 \$15,431 and \$38,627 for the years ended June 30, 2021 and 2020, respectively, have been reported under the in-kind donations caption in the statements of activities at their fair value and included in the statements of functional expenses as follows:

	<u>2021</u>	<u>2020</u>
Supplies	\$ 15,431	\$ 38,207
Program outreach services		420
Totals	<u>\$ 15,431</u>	<u>\$ 38,627</u>

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

Statement of Cash Flows—During the years ended June 30, 2021 and 2020, the Organization paid no income taxes and paid interest expense of \$13,885 and \$20,377, respectively.

Reclassifications—Certain amounts in 2020 have been reclassified to conform with the 2021 financial statement presentation.

Comparative Totals for 2020—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, 2020, from which the summarized information was derived.

Note 2—Availability of Financial Assets and Liquidity

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

The following represents the availability and liquidity of the Organization’s financial assets at June 30, 2021 to cover operating expenses for the next fiscal year:

Cash and cash equivalents, net of donor restrictions	\$ (312,961)
Federal and government grants receivable	2,067,694
Grants and contributions receivable	50,513
Other receivables	82,994
Current Availability of Financial Assets	<u>\$ 1,888,240</u>

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

Note 3—Property and Equipment, Net

Property and equipment, net at June 30, 2021 and 2020 consists of the following:

	<u>2021</u>	<u>2020</u>
Vehicles and equipment	\$ 286,040	\$ 188,646
Mobile showers	97,448	97,448
	<u>383,488</u>	<u>286,094</u>
Less accumulated depreciation	<u>(217,245)</u>	<u>(169,273)</u>
Property and Equipment, Net	<u>\$ 166,243</u>	<u>\$ 116,821</u>

Depreciation expense recorded for the years ended June 30, 2021 and 2020 was \$47,972 and \$48,274.

Note 4—Line of Credit

During the year ended June 30, 2021, the Organization opened a \$450,000 line of credit with a bank, bearing interest at the bank’s prime interest rate, currently at 5.5%, plus 1%, requiring monthly payments of interest only and secured by substantially all the assets of the Organization; the line of credit has a current maturity date of December 31, 2021. At June 30, 2021, the outstanding balance on the line of credit was \$450,000.

Note 5—PPP Advance

On April 30, 2020, the Organization received \$1,108,144 of Paycheck Protection Program (PPP) funding from the U.S. Small Business Administration (SBA), in response to the COVID-19 pandemic (see Note 14). Total grant revenue recognized during the years ended June 30, 2021 and 2020 amounted to \$39,713 and \$957,856, respectively based on qualifying expenditures incurred. At June 30, 2021 and 2020, the outstanding balance on the PPP advance based on qualifying expenditures, amounted to \$110,575 and \$150,288, respectively. At June 30, 2021, \$110,575 was reclassified to a loan payable and will be paid back to the SBA.

The PPP loan requires monthly payments of principal and interest of \$4,655, beginning six months from the date of the first disbursement of the loan. Interest will accrue at a rate of 1% per annum and the balance of the loan will be payable two years from the date of the first disbursement of the PPP funds.

Future minimum principal payments are as follows:

<u>Year Ending June 30,</u>	
2022	\$ 91,992
2023	<u>18,583</u>
Total	<u>\$ 110,575</u>

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

Note 6—Net Assets with Donor Restrictions

Net assets with donor restrictions at June 30, 2021 and 2020 consist of the following:

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose:		
Marin County	\$ 212,632	\$ 29,469
Santa Clara County	179,986	68,307
San Mateo County	95,926	8,620
Sonoma County	80,320	
Alameda County	69,972	11,898
Monterey County	49,553	
Santa Cruz County	44,157	19,279
Sacramento County	21,300	39,164
Stanislaus County		90,946
Data management		11,673
Total Subject to Purpose Restrictions	753,846	279,356
Subject to time restrictions:		
General expenditures	25,513	25,827
San Francisco Team	25,000	340,000
Total Subject to Time Restrictions	50,513	365,827
Total Net Assets with Donor Restrictions	<u>\$ 804,359</u>	<u>\$ 645,183</u>

Net assets released from donor restrictions for the years ended June 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Satisfaction of purpose restrictions:		
Stanislaus County	\$ 90,946	\$
Data management	11,673	
Sacramento County	6,190	
Marin County	3,257	
Santa Clara County		49,841
Dropdown Downtown		23,745
Total Satisfaction of Purpose Restrictions	112,066	73,586
Satisfaction of time restrictions:		
San Francisco Team	340,000	
General expenditures	25,827	100,705
Total Satisfaction of Time Restrictions	365,827	100,705
Total Net Assets Released from Donor Restrictions	<u>\$ 477,893</u>	<u>\$ 174,291</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 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 \$140,639 and \$102,944 for the years ended June 30, 2021 and 2020, respectively.

Note 8—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, 2021.

In the ordinary course of business, the Organization may be involved in legal proceedings and regulatory investigations. Management believes that the outcome of any such matters existing at June 30, 2021 will be resolved without material adverse effect on the Organization's future financial position, changes in net assets, or cash flows.

Note 9—Commitments

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

<u>Year Ending June 30,</u>	
2022	\$ 337,142
2023	168,344
2024	96,565
	<hr/>
Total	\$ <u>602,051</u>

The Organization also leases various office and meeting spaces leases on a month-to-month basis. Rental expense for all operating leases, including required common area costs and utilities, for the years ended June 30, 2021 and 2020 was \$586,565 and \$570,042, respectively, and is included under the occupancy caption in the statement of functional expenses.

Note 10—Rental Income

The Organization currently sub-leases space to various tenants on a month-to-month basis, including to the related party described in Note 11. Rental income associated with these month-to-month leases amounted to \$129,272 and \$146,711 for the years ended June 30, 2021 and 2020, respectively.

Downtown Streets, Inc.

Notes to Consolidated Financial Statements—Continued

Note 11—Related Party Transactions

The Organization shares certain common expenses with Peninsula Healthcare Connections, Inc. (PHC), a separate nonprofit organization with two common officers to Downtown Streets, Inc., to receive volume discounts, with the PHC portion reimbursed to the Organization. During the years ended June 30, 2021, and 2020, PHC reimbursed the Organization \$70,329 and \$64,815, respectively for incurred expenses. The Organization made a series of short-term loans to PHC during the year ended June 30, 2020 which totaled \$231,515, and were repaid in full at June 30, 2020.

The Organization subleases a portion of its primary administrative offices to PHC under a month-to-month lease; such rental income received during the years ended June 30, 2021 and 2020 totaled \$72,000 and \$57,000, respectively.

Note 12—Legal Settlement

During the year ended June 30, 2021, the Organization reached an employment-related settlement. The settlement amounted to \$170,000 and is reported under the legal settlement caption in the statement of functional expenses. The terms of the settlement require two equal payments of \$85,000, with the first payment due within 14 days of the Court's final approval of the settlement in December 2021. The second payment is due within six months after the first payment.

Note 13—Recent Accounting Pronouncement

Leases—In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires organizations that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statement of financial position for leases with terms exceeding 12 months. ASU No. 2016-02 defines a lease as a contract or part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. ASU No. 2016-02 is effective for nonprofit organizations with fiscal years beginning after December 15, 2021, with early adoption permitted. The Organization is currently evaluating the impact that the adoption of ASU 2016-02 will have on its consolidated financial statements.

Gifts-in-Kind—In September 2020, FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires increased transparency around the use and valuation of contributed nonfinancial assets (also known as gifts-in-kind) received by not-for-profit entities. Under the updated guidance, gifts-in-kind are required to be presented as a separate line item in the statement of activities, apart from contributions of cash or other financial assets, and to be disaggregated in the notes to the consolidated financial statements by the category that depicts the type of contributed nonfinancial assets. There are additional required disclosures regarding qualitative information denoting whether the gifts-in-kind were monetized or utilized during the reporting period; the entity's policy, if any, about monetizing rather than utilizing contributed nonfinancial assets; and the valuation techniques and inputs used to arrive at a fair value measure. ASU No. 2020-07 is to be applied retrospectively and is effective for annual reporting periods beginning after June 15, 2021, and interim periods within annual reporting periods beginning after June 15, 2022. Early adoption is permitted. The Organization is currently evaluating the impact that the adoption of ASU 2020-07 will have on its consolidated financial statements.

Downtown Streets, Inc.

Notes to Consolidated Financial Statements—Continued

Note 14—Risks and Uncertainties

In early March 2020, the COVID-19 virus was declared a global pandemic. Business continuity, including supply chains and consumer demand across a broad range of industries and countries, is being severely impacted, as governments and their citizens take significant and unprecedented measures to mitigate the consequences of the pandemic. The Organization is continuing to monitor the ongoing impact of the pandemic response on its overall operations. At the time of this reporting, the cumulative financial impact of the pandemic on the Organization cannot be fully determined, therefore no related adjustment has been made to these consolidated financial statements.

Note 15—Subsequent Events

Management evaluated subsequent events through December 15, 2021, 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 financial statements or disclosure in the notes to the financial statements.

Downtown Streets, Inc.
Schedule of Expenditure of Federal Awards
Year Ended June 30, 2021

Federal Grantor/ Pass-through Grantor Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Grant Amount	Grant Period	Federal Expenditures
U.S. Department of Agriculture					
SNAP Cluster					
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program					
Passed through:					
County of Santa Cruz	10.561	21W4054	\$ 303,801	10/01/20-09/30/21	\$ 100,034
County of Yolo	10.561	9560-2510	110,683	07/01/20-06/30/21	35,785
County of Marin	10.561	00004107C	278,459	01/01/21-06/30/22	30,103
Total SNAP Cluster, CFDA Nos. 10.551 and 10.561					165,922
Food Distribution Cluster					
Emergency Food Assistance Program (Food Commodities)					
Passed through:					
Second Harvest of Silicon Valley	10.569	1055	17,194	07/01/20-06/30/21	17,194
Total Food Distribution Cluster, CFDA Nos. 10.565, 10.568 and 10.569					17,194
Total U.S. Department of Agriculture					183,116
U.S. Department of Housing and Urban Development					
CDBG—Entitlement Grants Cluster					
Community Development Block Grants/Entitlement Grants					
Passed through:					
Sunnyvale Community Services	14.218	2021-829560	302,520	07/01/20-06/30/21	302,519
City of Palo Alto	14.218	C20175756	236,000	07/01/20-06/30/21	232,983
City of San Jose	14.218	CPS-16-017D	250,000	07/1/20-12/31/20	208,344
City of Hayward	14.218	C-20098	236,414	07/01/20-06/30/21	205,837
City of Palo Alto	14.218	C21180038	100,000	07/01/20-06/30/21	99,178
City of Modesto	14.218	B-19-MC-06-0002	100,000	07/01/19-06/30/21	52,382
Total CDBG—Entitlement Grants Cluster, CFDA Nos. 14.218 and 14.225					1,101,243
Emergency Solutions Grant Program					
Passed through:					
City of Salinas	14.231	5800-30-9181-63.6	238,633	07/01/20-06/30/21	238,548
City of Modesto	14.231	2020-453	450,000	11/01/20-06/30/22	123,811
County of Marin	14.231	32101159	253,789	02/01/21-06/30/22	64,294
City of Modesto	14.231	C-15527	281,065	10/27/20-09/30/22	43,603
City of Salinas	14.231	DST-ESG-04	238,000	04/01/21-05/31/22	31,307
Total CFDA No. 14.231					501,563
Total U.S. Department of Housing and Urban Development					1,602,806

Downtown Streets, Inc.
Schedule of Expenditure of Federal Awards—Continued
Year Ended June 30, 2021

Federal Grantor/ Pass-through Grantor Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Grant Amount	Grant Period	Federal Expenditures
U.S. Department of the Treasury					
Coronavirus Relief Fund Passed through: Second Harvest of Silicon Valley	21.019	1055	\$ 187	07/01/20-06/30/21	\$ 187
				Total CFDA No. 21.019	187
				Total U.S. Department of Treasury	187
U.S. Department of Health and Human Services					
Community Services Block Grant Passed through: Alameda County	93.569	2020-SSA-WBA-CPET	83,000	01/01/20-12/31/21	29,354
	93.569	CSD/16F-5002	40,000	01/01/20-12/31/20	43,459
				Total CFDA No. 93.569	72,813
Epidemiology and Laboratory Capacity for Infectious Diseases Passed through: County of Yolo	93.323	9560-2511	26,250	04/12/21-06/30/21	8,853
				Total CFDA No. 93.569	8,853
				Total U.S. Department of Health and Human Services	81,666
U.S. Department of Homeland Security					
Community Services Block Grant Passed through: Second Harvest of Silicon Valley	97.024	1055	164	07/01/20-06/30/21	164
				Total CFDA No. 97.024	164
				Total U.S. Department of Homeland Security	164
				Total Expenditures of Federal Awards	\$ 1,867,939

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, 2021

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Downtown Streets, Inc., dba Downtown Streets Team, under programs of the federal government for the year ended June 30, 2021. 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. , dba Downtown Streets Team, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Downtown Streets, Inc., dba Downtown Streets Team.

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. Any negative amounts shown on the schedule represent adjustments or credits made in the normal course of operations to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

Note C – Indirect Cost Rate

Downtown Streets, Inc. has elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Downtown Streets, Inc.
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2021

There were no prior year audit findings.

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

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

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Downtown Streets, Inc. (Organization), which comprise the statement of financial position as of June 30, 2021, and the related 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 15, 2021.

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

Campbell, California
December 15, 2021

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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, 2021. 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, 2021.

Report on Internal Control over Compliance

The Organization's management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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

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

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance, and the result of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Campbell, California
December 15, 2021



Downtown Streets, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2021

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, Emergency Solutions Grants Program, CFDA No. 14.231.
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, 2021

As there were no audit findings or questioned costs for the year ended June 30, 2021, a corrective action plan is not required.