

**Audited Financial Statements  
and Required Supplementary Information**



**June 30, 2023**

**Quigley & Miron**

**Downtown Streets, Inc.**  
**Audited Financial Statements and Required Supplementary Information**  
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## Independent Auditor's Report

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

### Report on the Financial Statements

#### *Opinion*

We have audited the accompanying financial statements of Downtown Streets, Inc. (Organization), a nonprofit organization, which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2023, 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.

#### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date that the financial statements are issued.

#### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization’s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

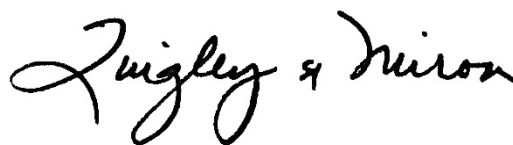
#### **Other Matters**

##### *Required Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the 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 not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued report dated March 27, 2024, on our consideration of the Organization'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 the Organization’s internal control over financial reporting and compliance.



Campbell, California

March 27, 2024, except for additional audit work performed and described in “Other Matters” above, which was completed on May 29, 2024.

**Downtown Streets, Inc.**  
**Statement of Financial Position**  
**June 30, 2023**

**Assets**

Cash	\$ 575,966
Government grants receivable	2,300,709
Other accounts receivables	22,164
Prepaid expenses and deposits	316,891
Property and equipment, net—Note 3	271,133
Operating leases right-of-use asset—Note 8	446,908

**Total Assets** \$ 3,933,771

**Liabilities and Net Assets**

Accounts payable and accrued expenses	\$ 196,115
Salaries and employee benefits payable	583,607
Line of credit—Note 4	531,079
Note payable—Note 5	250,000
Notes payable to related parties—Note 6	425,000
Deferred revenue	32,671
Rental deposits	5,950
Operating leases liability—Note 8	453,681
Regulatory settlement payable—Note 12	800,000

**Total Liabilities** 3,278,103

**Net Assets**

Without donor restrictions	341,068
With donor restrictions—Note 9	314,600

**Total Net Assets** 655,668

**Total Liabilities and Net Assets** \$ 3,933,771

See notes to financial statements.

**Downtown Streets, Inc.**  
**Statement of Activities**  
**Year Ended June 30, 2023**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Operating Activities</b>			
<b>Public Support and Revenue</b>			
Government grants	\$ 11,149,095	\$	\$ 11,149,095
Grants and contributions	2,073,482	314,600	2,388,082
In-kind contributions—Note 10	100,958		100,958
Fees for service	94,306		94,306
Special events			
Gross revenue	103,056		103,056
Less direct benefit to donors	(79,196)		(79,196)
<b>Special Events, Net</b>	<b>23,860</b>		<b>23,860</b>
Rental income—Note 11	33,908		33,908
Other income	607		607
Net assets released from restrictions	268,588	(268,588)	
<b>Total Public Support, Revenue, and Releases from Restrictions</b>	<b>13,744,804</b>	<b>46,012</b>	<b>13,790,816</b>
<b>Expenses</b>			
Program services	11,290,571		11,290,571
Supporting services			
Management and general	2,571,919		2,571,919
Fundraising	838,923		838,923
<b>Total Expenses</b>	<b>14,701,413</b>		<b>14,701,413</b>
<b>Change in Net Assets From Operations</b>	<b>(956,609)</b>	<b>46,012</b>	<b>(910,597)</b>
<b>Nonoperating Activities</b>			
Loss on disposal of equipment	(23,894)		(23,894)
<b>Total Nonoperating Activities</b>	<b>(23,894)</b>		<b>(23,894)</b>
<b>Change in Net Assets</b>	<b>(980,503)</b>	<b>46,012</b>	<b>(934,491)</b>
<b>Net Assets at Beginning of Year</b>	<b>1,321,571</b>	<b>268,588</b>	<b>1,590,159</b>
<b>Net Assets at End of Year</b>	<b>\$ 341,068</b>	<b>\$ 314,600</b>	<b>\$ 655,668</b>

See notes to financial statements.

Downtown Streets, Inc.  
Statement of Functional Expenses  
Year Ended June 30, 2023

	Program Services				Supporting Services			Special Events	Total
	Downtown Streets Team	Streets Team Enterprises	Phoenix Room	Round Table	Total Program Services	Management and General	Fundraising		
<b>Expenses</b>									
Salaries	\$ 4,386,160	\$ 2,046,974	\$	\$	\$ 6,433,134	\$ 991,172	\$ 606,252	\$	\$ 8,030,558
Employee benefits—Note 7	602,779	233,454			836,233	125,123	52,345		1,013,701
Payroll taxes	372,857	200,385			573,242	80,976	51,385		705,603
<b>Total Personnel Expenses</b>	<b>5,361,796</b>	<b>2,480,813</b>			<b>7,842,609</b>	<b>1,197,271</b>	<b>709,982</b>		<b>9,749,862</b>
Program expenses	1,869,093	59,206	128,535		2,056,834	9,002	593		2,066,429
Regulatory settlement—Note 12						800,000			800,000
Professional fees	187,021	76,329			263,350	267,303	46,638		577,291
Occupancy expenses	423,122	27,017	3,600	25,336	479,075	38,823	26,412		544,310
Office expenses	222,167	13,454			235,621	103,698	44,988		384,307
Vehicle expenses	72,827	170,465		50	243,342	2,387	310		246,039
Travel and transportation	76,162	15,580		196	91,938	11,978	4,576		108,492
Cost of direct benefits to donors								79,196	79,196
Depreciation	57,432	17,217			74,649				74,649
Interest						69,844			69,844
Insurance						47,660			47,660
Bank fees and charges	75	306			381	23,953	3,060		27,394
Marketing and advertising	2,772				2,772		2,364		5,136
<b>Total Expenses by Function</b>	<b>8,272,467</b>	<b>2,860,387</b>	<b>132,135</b>	<b>25,582</b>	<b>11,290,571</b>	<b>2,571,919</b>	<b>838,923</b>	<b>79,196</b>	<b>14,780,609</b>
Less expenses included with revenues on the statement of activities									
Cost of direct benefits to donors								(79,196)	(79,196)
<b>Total Expenses</b>	<b>\$ 8,272,467</b>	<b>\$ 2,860,387</b>	<b>\$ 132,135</b>	<b>\$ 25,582</b>	<b>\$ 11,290,571</b>	<b>\$ 2,571,919</b>	<b>\$ 838,923</b>	<b>\$</b>	<b>\$ 14,701,413</b>

See notes to financial statements.

**Downtown Streets, Inc.**  
**Statement of Cash Flows**  
**Year Ended June 30, 2023**

**Cash Flows from Operating Activities**

Change in net assets	\$ (934,491)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Noncash leases expenses	(446,908)
Depreciation	74,649
Loss on disposal of equipment	23,894
Changes in operating assets and liabilities:	
Government grants receivable	42,416
Grants and contributions receivable	268,588
Other accounts receivables	(6,148)
Prepaid expenses and deposits	(95,687)
Accounts payable and accrued expenses	(73,140)
Salaries and employee benefits payable	34,279
Deferred revenue	28,518
Rental deposits	(700)
Operating leases liability	453,681
Regulatory settlement payable	800,000
<b>Net Cash Provided by Operating Activities</b>	<b>168,951</b>

**Cash Flows from Investing Activities**

Purchases of equipment	(154,652)
Proceeds from disposal of equipment	1,000
<b>Net Cash Used in Investing Activities</b>	<b>(153,652)</b>

**Cash Flows from Financing Activities**

Proceeds from line of credit	4,196,590
Payments on line of credit	(4,275,857)
Payments on notes payable to related parties	(125,000)
Proceeds from note payable	250,000
<b>Net Cash Provided by Financing Activities</b>	<b>45,733</b>

**Increase in Cash** **61,032**

**Cash at Beginning of Year**

**514,934**

**Cash at End of Year** **\$ 575,966**

**Supplementary Disclosures**

Income taxes paid	\$
Interest paid	<u>\$ 69,844</u>

See notes to financial statements.



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

Organization—Downtown Streets, Inc., (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 20 cities spanning 13 counties in Northern CA. Since 2005, the Organization has assisted over almost 1,300 people graduate to long-term employment and another 1,600 program participants (Team Members) in ending their homelessness permanently. The Organization is principally funded through individual donations, grants, and government contracts.

Program Services:

Downtown Streets Team—Downtown Streets Team builds teams that restore dignity, inspire hope, and provide a pathway to recover from homelessness. In the Streets Team Volunteer Program (STVP), Team Members (those experiencing homelessness or extreme housing instability) may qualify to receive a basic needs stipend and also receive services to move from survival mode to goal setting mode. Team Members have access to case management and employment services to help them eliminate the barriers that keep them from jobs and housing. Team Members may also choose, but are not required, to volunteer in their communities, removing debris from streets, parks, and waterways. Through case management services, Team meetings, other services and their own 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.

Streets Team Enterprises (STE)—In 2022, Streets Team Enterprises (STE), in partnership with BCOE and CalTrans, as part of the Statewide Clean California initiative, the Organization launched STE crews to clean up highways in Napa, Santa Clara, and Solano counties. The program is expanding to Alameda County in 2024 and altogether provides termed employment for over 60 individuals every day. The Streets Team Enterprises (STE) program was developed as a “next step,” providing transitional employment to graduates of the STVP program and others experiencing homelessness or housing instability. Through their employment STE employees continue to receive case management and employment services before being graduated into long-term positions with employment partners.

Phoenix Room—Phoenix Room is a fiscal agency relationship with Anette Hancock, who provides move-in kits, containing bedding, towels, kitchen essentials, and cleaning supplies to newly housed individuals and families. DST Project Managers deliver move-in kits for newly housed Team Members and holiday gift bags for every single Team Member across all our communities. The project is funded through individual donations and foundation grants and reimburses Phoenix Room for move-in kit expenses.

Round Table—In 2013, the Organization started property management of a ten-unit building, Roundtable, in San Jose. DST works with each tenant and partner agencies to secure alternative permanent housing for each resident. Staff will provide drop-in case management services on-site to all residents on a weekly basis at least bi-monthly to review the case plan and housing progress. The case manager will assist each resident with housing applications, deposit resources, move-in kits, and other referral resources as needed. The Organization is electing to wind down operations in 2024 after placing remaining tenants in other supportive housing locations.

**Downtown Streets, Inc.**

**Notes to Financial Statements—Continued**

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

Financial Statement Presentation—The financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Organization 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 other activities considered to be of a more unusual or nonrecurring nature.

Income Taxes—The Organization is a nonprofit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (Code) and Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for federal or state income taxes is included in the financial statements. In addition, the Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Code.

Accounting standards require an organization to evaluate its tax positions and provide for a liability for any positions that would not be considered ‘*more likely than not*’ to be upheld under a tax authority examination. Management has evaluated its tax positions and has concluded that a provision for a tax liability is not necessary at June 30, 2023. 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 Principle—In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. This amendment is applicable to leases with terms exceeding 12 months and requires lessees to recognize the assets and related liabilities that arise from leases in the statement of financial position. Additionally, in July 2018, FASB issued ASU 2018-11 *Leases (Topic 842)—Targeted Improvements*, which, among other things, provides an additional transition method that would allow entities to not apply the guidance in ASU 2016-02 in the comparative periods presented in the financial statements and instead recognize a cumulative effect adjustment to the opening balance of net assets without donor restrictions in the period of adoption. The Organization has adopted ASU No. 2016-02 on a prospective basis as of July 1, 2022, for the year ended June 30, 2023, and has adjusted the presentation of the financial statements accordingly.

**Downtown Streets, Inc.**

**Notes to Financial Statements—Continued**

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

Cash—Cash consists of balances in checking and savings accounts at banks and petty cash.

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).

Concentration of Credit Risk—Financial instruments which potentially subject the Organization to concentrations of credit risk consist of cash and receivables.

The Organization places its cash with high credit quality financial institutions where the funds are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. At times, such cash balances may exceed FDIC insurance limits during the normal course of business.

While the Organization is subject to credit risk to the extent any financial institution with which it conducts business is unable to fulfill contractual obligations on its behalf, the Organization's management has assessed the credit risk associated with its cash deposits at June 30, 2023 and believes it is not exposed to any significant credit risk with its cash. However, due to the current risk and uncertainties affecting financial institutions (see Note 13), the potential related impact cannot be reasonably estimated at this time.

Government grants receivable at June 30, 2023 are due primarily from municipalities well-known to the Organization, with favorable past payment histories. Management of the Organization has assessed the credit risk associated with these receivables and has determined that an allowance for potential uncollectible amounts is not necessary.

Contracts with Customers—Accounting standards require an organization to recognize revenue arising from contracts with customers at the time the customer obtains control of contracted goods or service. 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 flow arising from an entity's contracts with customers.

Revenue Recognition—The Organization's revenue recognition policies are as follows:

Government grants—Revenues from government grants are reported as increases in net assets without donor restrictions 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.

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

Special events—The Organization conducts special fundraising events in which a portion of the gross proceeds paid by the participants represents payment for the direct cost of benefits received by the participants at the event. The Organization values such benefits at actual cost.

Rental income—Rental income is recognized at the time services are provided.

**Downtown Streets, Inc.**

**Notes to Financial Statements—Continued**

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

In-Kind Contributions—The Organization records various types of in-kind contributions, 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. The Organization also receives in-kind contributions of government grants in the form of food used for their various programs.

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 charged directly to the function benefitted.

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

**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, 2023 to cover operating expenses for the next fiscal year:

Cash, net of donor restrictions	\$	261,366
Government grants receivable		2,300,709
Other receivables		22,164
		<hr/>
<b>Current Availability of Financial Assets</b>	<b>\$</b>	<b>2,584,239</b>

**Note 3—Property and Equipment, Net**

Property and equipment, net at June 30, 2023 consists of the following:

Vehicles and equipment	\$	485,284
Less accumulated depreciation		(214,151)
		<hr/>
<b>Property and Equipment, Net</b>	<b>\$</b>	<b>271,133</b>

Depreciation expense recorded for the year ended June 30, 2023 was \$74,649.

During the year ended June 30, 2023, the Organization disposed of \$169,964 in vehicles and equipment resulting in a loss on disposal of equipment of \$23,894.

**Downtown Streets, Inc.**

**Notes to Financial Statements—Continued**

**Note 4—Line of Credit**

The Organization maintains a line of credit loan and security agreement (agreement) of up to \$1,500,000, or 85% of the accounts receivable, for working capital, bearing interest at one and a one half percentage points over and above the bank's prime interest rate, 8.25% at June 30, 2023. The agreement directs all cash receipts and other proceeds from accounts receivable directly to the loan account. At June 30, 2023, the outstanding balance on the agreement was \$531,079.

**Note 5—Note Payable**

During the year ended June 30, 2023, the Organization received a loan from an individual which totaled \$250,000. The loan bears interest at 5% with \$125,000 due no later than January 31, 2024 and the remaining \$125,000 due on January 31, 2025. The outstanding principal at June 30, 2023 was \$250,000, of which \$125,000 was paid subsequent to year-end.

**Note 6—Notes Payable to Related Parties**

During the year ended June 30, 2022, the Organization received a loan for operations from Peninsula Healthcare Connections, Inc. (PHC), a separate nonprofit organization which at the time shared two common officers to Downtown Streets, Inc, in the amount of \$450,000. The loan bears no interest and is due in full no later than January 31, 2026. The outstanding balance at June 30, 2023 was \$375,000.

During the year ended June 30, 2022, the Organization received a loan from a former director in the amount of \$100,000. The loan bears no interest and has no specific repayment terms. The outstanding balance at June 30, 2023 was \$50,000 and was paid off in full subsequent to year-end.

**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 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 \$150,896 for the year ended June 30, 2023.

**Note 8—Operating Lease Liability and Commitments**

During the year ended June 30, 2023, the Organization signed various lease agreements for office space under various operating lease agreements in effect through May 2026. The Organization also signed various lease agreements in effect through September 2026 for fleet vehicles for use in its programs. With the adoption of ASU 2016-02, an operating lease right-of-use asset and an offsetting operating lease liability was recorded in relation to these leases, using a discount rate of 5% per year, amounting to \$584,057. At June 30, 2023, an operating lease right-of-use asset and related operating lease liability amounted to \$446,908 and \$453,681, respectively.

Future minimum annual rental commitments by year for these operating leases with maturities greater than one year from June 30, 2023 are as follows:

<u>Year Ending June 30,</u>	<u>Office Space</u>	<u>Vehicle Fleet</u>	<u>Total Commitments</u>
2024	\$ 113,964	\$ 87,547	\$ 201,511
2025	117,096	87,547	204,643
2026	44,733	28,510	73,243
2027		3,358	3,358
	<b>Gross Rental Payments</b>	<b>275,793</b>	<b>482,755</b>
Less effect of discounting at 5%	(16,600)	(12,474)	(29,074)
	<b>Operating Lease Liability</b>	<b>\$ 259,193</b>	<b>\$ 194,488</b>
		<b>\$ 194,488</b>	<b>\$ 453,681</b>

The Organization also leases various additional office and meeting spaces leases on a month-to-month basis. Occupancy expenses for all operating office and meeting leases, including required common area costs and utilities, for the year ended June 30, 2023 was \$544,309 and is included under the occupancy expenses caption in the statement of functional expenses. Vehicle expenses for all operating fleet leases, including required licenses, taxes and repairs and maintenance, for the year ended June 30, 2023 was \$246,039 and is included under the vehicle expenses caption in the statement of functional expenses.

The Organization signed three additional vehicle leases delivered after year-end through November 2027. Future minimum rental commitments by year for leases signed after year-end are as follows:

<u>Year Ending June 30,</u>	
2024	\$ 43,073
2025	48,008
2026	48,008
2027	4,935
	<b>Total</b>
	<b>\$ 144,024</b>

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

**Note 9—Net Assets with Donor Restrictions**

Net assets with donor restrictions at June 30, 2023 consist of the following:

Subject to expenditure for specified purpose:	
Community of Modesto	\$ 145,625
Community of San Francisco	75,000
Committed to Care	60,000
Back 2 Work	17,175
Destination Home	16,800
	<hr/>
<b>Total Net Assets with Donor Restrictions</b>	<b>\$ 314,600</b>

Net assets released from donor restrictions for the year ended June 30, 2023 consisted of amounts restricted to time and amounted to \$268,588.

**Note 10—In-Kind Contributions**

During the year ended June 30, 2023, the Organization recognized \$100,958 of monetized donated food used in the Downtown Streets Team program, valued at the fair market value of \$1.72 per pound. Donated food is reported in the statement of activities under in-kind contributions and in the statement of functional expenses under program expense. The Organization also recognized in-kind government grants of food without donor restrictions for their various program activities in the amount of \$6,254 during the year. In-kind government grants of food are reported in the statement of activities under government grants and in the statement of functional expenses under program expense.

**Note 11—Rental Income**

The Organization currently sub-leases space to various tenants under its Round Table program on a month-to-month basis. Rental income associated with these month-to-month leases amounted to \$33,908 for the year ended June 30, 2023.

**Note 12—Regulatory Settlement**

In November 2023, subsequent to year-end, the Organization reached voluntary resolution of a dispute with a municipality contracting with the Organization to receive services addressing the unhoused population in their community. The dispute resulted from an audit conducted by a compliance office within the municipality. The municipality's compliance office and the Organization disagreed over the characterization of the Organization's Team Members as "volunteers" under municipal ordinances. Neither the municipality's compliance office nor the Organization conceded their respective positions on this issue; however, to resolve the matter expeditiously and also continue providing services to the unhoused in the municipality, the Organization and the compliance office entered a voluntary settlement agreement which provides for a payment of \$800,000 over the course of eight years, beginning November 2023, without interest. This payment is reported in the statement of functional expenses under the regulatory settlement caption.

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

**Note 12—Regulatory Settlement—Continued**

The terms of the regulatory settlement require future payments are as follows:

<u>Year Ending June 30,</u>	
2024	\$ 100,000
2025	100,000
2026	100,000
2027	100,000
2028	100,000
Thereafter	<u>300,000</u>
<b>Total</b>	<b><u>\$ 800,000</u></b>

**Note 13—Risks and Uncertainties**

In March 2023, the shut-down of certain financial institutions raised economic concerns over disruption in the U.S. banking system. The U.S. government took certain actions to strengthen public confidence in the U.S. banking system, however, there can be no certainty that the actions taken by the U.S. government will be effective in mitigating the effects of financial institution failures on the economy, which may include limits on access to short-term liquidity in the near term or other adverse effects. As disclosed in Note 1, at times, the Organization maintains cash balances in excess of federally-insured limits. Given the uncertainty of the situation, the potential related financial impact cannot be reasonably estimated at this time.

**Note 14—Subsequent Events**

Management evaluated all activities of the Organization through March 27, 2024, which is the date the financial statements were available to be issued, and concluded that, other than the repayment of the loans described in Note 5 and Note 6, the settlement described in Note 12, and the vehicle leases described in Note 8, 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, 2023

Federal Grantor/ Pass-through Grantor Program Title	Federal Assistance Listing Number	Grantor's Number	Grant Amount	Grant Period	Federal Expend- itures
<b>U.S. Department of Agriculture</b>					
<u>SNAP Cluster</u>					
State Administrative Matching Grants for Supplemental Nutrition Assistance Program Passed through: County of Yolo	10.561	9560-2510	\$ 582,877	07/01/22-06/30/23	\$ 17,338
<b>Total SNAP Cluster, Assistance Listing Nos. 10.551 and 10.561</b>					<b>17,338</b>
<u>Food Distribution Cluster</u>					
Emergency Food Assistance Program (Food Commodities) Passed through: Second Harvest of Silicon Valley	10.569	6490	5,883	07/01/22-06/30/23	5,883
<b>Total Food Distribution Cluster, Assistance Listing Nos. 10.565, 10.568, and 10.569</b>					<b>5,883</b>
<b>Total U.S. Department of Agriculture</b>					<b>23,221</b>
<b>U.S. Department of Housing and Urban Development</b>					
<u>CDBG – Entitlement Grants Cluster</u>					
Community Development Block Grants/Entitlement Grants Passed through: Sunnyvale Community Services	14.218	2223-829560	517,993	07/01/22-06/30/23	328,655
City of Modesto	14.218	2022-340	66,474	07/01/22-06/30/23	66,474
City of Salinas	14.218	22CDBG-CV01	16,847	07/01/22-06/30/23	16,847
<b>Total CDBG – Entitlement Grants Cluster, Assistance Listing Nos. 14.218 and 14.225</b>					<b>411,976</b>
Emergency Solutions Grant Program					
Passed through: Sacramento Housing Redevelopment Agency (SHRA)	14.231	MC-06-003	56,003	07/01/22-06/30/23	56,003
County of Marin	14.231	32101159	327,191	07/01/22-06/30/23	27,039
City of Modesto	14.231	MOD-C2H-CAMP2HOME	90,000	07/01/22-06/30/23	183,504
City of Modesto	14.231	2022-037	500,000	10/1/22-03/31/22	141,689
<b>Total Assistance Listing No. 14.231</b>					<b>408,235</b>
<b>Total U.S. Department of Housing and Urban Development</b>					<b>820,211</b>
<b>U.S. Department of Labor</b>					
<u>WIOA Cluster</u>					
WIOA Adult Program Passed through: State of California	17.258	AA311069	1,994,890	07/01/22-06/30/23	45,567
<b>Total WIOA Cluster, Assistance Listing Nos. 17.258, 17.259 and 17.278</b>					<b>45,567</b>
<b>Total U.S. Department of Labor</b>					<b>45,567</b>

Downtown Streets, Inc.  
Schedule of Expenditure of Federal Awards—Continued  
Year Ended June 30, 2023

Federal Grantor/ Pass-through Grantor Program Title	Federal Assistance Listing Number	Grantor's Number	Grant Amount	Grant Period	Federal Expend- itures
<b>U.S. Department of Treasury</b>					
Coronavirus State and Local Fiscal Recovery Funds					
Passed through:					
City of Hayward	21.027	22-103	\$ 208,000	07/01/22-06/30/23	\$ 175,555
City of Salinas	21.027	22-ARPA-01	223,100	07/01/22-06/30/23	135,621
City of West Sacramento	21.027	Downtown Streets Team	350,622	07/01/22-06/30/23	338,246
<b>Total Assistance Listing No. 21.027</b>					<b>649,422</b>
<b>Total U.S. Department of Treasury</b>					<b>649,422</b>
<b>U.S. Department of Health and Human Services</b>					
Community Services Block Grant					
Passed through:					
Alameda County	93.569	22F-5002	45,000	07/01/22-06/30/23	20,725
<b>Total Assistance Listing No. 93.569</b>					<b>20,725</b>
<b>Total U.S. Department of Health and Human Services</b>					<b>20,725</b>
<b>U.S. Department of Homeland Security</b>					
Emergency Food and Shelter National Board Program					
Passed through:					
Second Harvest of Silicon Valley	97.024	6490	372	07/01/22-06/30/23	372
<b>Total Assistance Listing No. 97.024</b>					<b>372</b>
<b>Total U.S. Department of Homeland Security</b>					<b>372</b>
<b>Total Expenditures of Federal Awards</b>					<b><u>\$ 1,559,518</u></b>

See notes to the schedule of expenditures of federal awards.

**Downtown Streets, Inc.**  
**Notes to Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2023**

**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, 2023. The information in this schedule is presented in accordance with the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Downtown Streets, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Downtown Streets, Inc..

**Note B – Summary of Significant Accounting Policies**

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. 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, 2023**

There were no prior year audit findings.

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Telephone: (408) 869-6108  
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## **Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

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

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Downtown Streets, Inc. (Organization), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated March 27, 2024.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

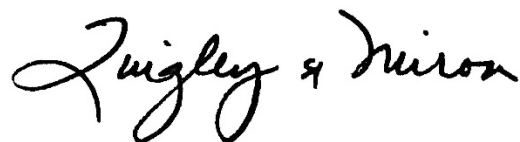
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not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

### **Compliance and Other Matters**

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

**Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

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

Campbell, California  
March 27, 2024

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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**

#### *Opinion on Each Major Federal Program*

We have audited Downtown Streets, Inc.'s (Organization) compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2023. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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, 2023.

#### *Basis for Opinion on Each Major Federal Program*

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

#### *Responsibilities of Management for Compliance*

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Organization's federal programs.

*Auditor's Responsibilities for the Audit of Compliance*

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

**Report on 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.

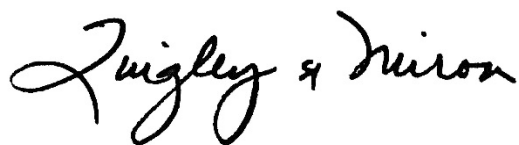
Our consideration of internal control over compliance was for the limited purpose described in the *Auditor's Responsibilities for the Audit of Compliance* section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.



**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.

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

Campbell, California  
May 29, 2024

**Downtown Streets, Inc.**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2023**

**A. Summary of Audit Results**

1. The auditor's report expresses an unmodified opinion on whether the financial statements of Downtown Streets, Inc. were prepared in accordance with accounting principles generally accepted in the United States of America.
2. No material weaknesses or significant deficiencies relating to internal control over financial reporting were identified during the audit.
3. No instances of noncompliance material to the financial statements of Downtown Streets, Inc. were disclosed during the audit.
4. No material weaknesses or significant deficiencies relating to internal control over major programs were identified during the audit of the major federal award programs.
5. The auditor's report on compliance for the major federal award programs 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 U.S. Department of Treasury, Coronavirus State and Local Fiscal Recovery Funds, Assistance Listing No. 21.027.
8. The threshold for distinguishing Types A and B programs was \$750,000.
9. Downtown Streets, Inc. was determined to not be a low-risk auditee.

**B. Findings—Financial Statements Audit**

None

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

None

**Downtown Streets, Inc.**  
**Corrective Active Plan**  
**Year Ended June 30, 2023**

As there were no audit findings or questioned costs for the year ended June 30, 2023, a corrective action plan is not required.