

FARESTART
CONSOLIDATED FINANCIAL STATEMENTS
AND
FEDERAL SINGLE AUDIT REPORTS
DECEMBER 31, 2010 AND 2009

FARESTART

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INDEPENDENT AUDITORS' REPORT

Board of Directors
FareStart

We have audited the accompanying consolidated statements of financial position of FareStart (a not-for-profit organization) as of December 31, 2010 and 2009, and the related consolidated statements of unrestricted activities, changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the management of FareStart. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of FareStart as of December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2011, on our consideration of FareStart'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* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

Finney, Neill & Company, P.S.

March 19, 2011

FARESTART
Consolidated Statements of Financial Position
December 31, 2010 and 2009

<u>ASSETS</u>	<u>2010</u>	<u>2009</u>
Current Assets		
Cash and cash equivalents	\$ 2,157,370	\$ 2,166,775
Accounts receivable	400,558	476,544
Promises to give - current, net	35,127	41,484
Prepaid expenses	92,441	81,074
Inventory	<u>33,603</u>	<u>29,634</u>
Total Current Assets	2,719,099	2,795,511
Reserve accounts	1,385,739	1,212,558
Promises to give - capital project - long-term, net	35,121	103,260
Note receivable	9,698,806	9,648,806
Property and equipment, net	9,586,226	9,640,011
Capitalized costs, net	<u>750,587</u>	<u>947,386</u>
	<u>\$ 24,175,578</u>	<u>\$ 24,347,532</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable	\$ 227,543	\$ 272,920
Accrued expenses	414,634	300,660
Deferred revenue	41,339	34,770
Notes payable and capital lease obligations - current portion	<u>4,452</u>	<u>11,643</u>
Total Current Liabilities	687,968	619,993
Notes Payable and Capital Lease Obligations, net of current portion	<u>15,757,549</u>	<u>15,773,695</u>
Total Liabilities	16,445,517	16,393,688
Net Assets		
Unrestricted - FareStart	8,514,506	8,162,031
Unrestricted - noncontrolling interest in FareStart Properties, LLC	(857,998)	(443,435)
Temporarily restricted	<u>73,553</u>	<u>235,248</u>
Total Net Assets	<u>7,730,061</u>	<u>7,953,844</u>
	<u>\$ 24,175,578</u>	<u>\$ 24,347,532</u>

The accompanying notes are an integral part of these consolidated financial statements.

FARESTART
Consolidated Statements of Unrestricted Activities
Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating Revenue		
Food service revenue	\$ 2,204,494	\$ 2,106,361
Guest chef night	240,891	238,099
In-kind contributions - food	<u>205,319</u>	<u>117,601</u>
	2,650,704	2,462,061
Cost of goods sold	<u>886,979</u>	<u>780,198</u>
Net Operating Revenue	<u>1,763,725</u>	<u>1,681,863</u>
Unrestricted Public Support and Other Revenue		
Private grants	808,156	1,067,459
Public contracts	693,010	673,894
Contributions - operating	1,199,276	847,715
Contributions - capital projects	(12,753)	(3,069)
In-kind contributions - other	649,473	219,511
Special events, net of direct benefits to donors of \$253,174 and \$190,824	560,778	629,214
Interest and other revenue	<u>244,316</u>	<u>237,238</u>
Total Unrestricted Public Support and other revenue	4,142,256	3,671,962
Net Assets Released from Restrictions		
Satisfaction of purpose restrictions	<u>235,248</u>	<u>24,752</u>
Total Unrestricted Public Support, Revenue, and Other Support	<u>6,141,229</u>	<u>5,378,577</u>
Expenses		
Program services	3,983,560	3,404,643
Management and general:		
FareStart Operations	806,335	655,610
FareStart Properties, LLC	794,414	858,529
Fundraising	<u>602,816</u>	<u>651,369</u>
Total Expenses	<u>6,187,125</u>	<u>5,570,151</u>
Unrestricted revenue over (under) expenses	<u>\$ (45,896)</u>	<u>\$ (191,574)</u>

The accompanying notes are an integral part of these consolidated financial statements.

FARESTART
Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2010 and 2009

	December 31, 2010		
		Non- Controlling	
	FareStart	Interest	Total
Unrestricted Net Assets:			
Unrestricted revenue over (under) expenses	\$ 352,475	\$ (398,371)	\$ (45,896)
Priority return	<u>-</u>	<u>(16,192)</u>	<u>(16,192)</u>
Change in Unrestricted Net Assets	<u>352,475</u>	<u>(414,563)</u>	<u>(62,088)</u>
Temporarily Restricted Activities:			
Satisfaction of purpose restrictions	(235,248)	-	(235,248)
Contributions - restricted	<u>73,553</u>	<u>-</u>	<u>73,553</u>
Change in Temporarily Restricted Net Assets	<u>(161,695)</u>	<u>-</u>	<u>(161,695)</u>
Total Changes in Net Assets	190,780	(414,563)	(223,783)
Net Assets - Beginning of year	<u>8,397,279</u>	<u>(443,435)</u>	<u>7,953,844</u>
Net Assets - End of year	<u>\$ 8,588,059</u>	<u>\$ (857,998)</u>	<u>\$ 7,730,061</u>

	December 31, 2009		
		Non- Controlling	
	FareStart	Interest	Total
Unrestricted Net Assets:			
Unrestricted revenue over (under) expenses	\$ 235,669	\$ (427,243)	\$ (191,574)
Priority return	<u>-</u>	<u>(16,192)</u>	<u>(16,192)</u>
Change in Unrestricted Net Assets	<u>235,669</u>	<u>(443,435)</u>	<u>(207,766)</u>
Temporarily Restricted Activities:			
Satisfaction of purpose restrictions	(24,752)	-	(24,752)
Contributions - restricted	<u>255,000</u>	<u>-</u>	<u>255,000</u>
Change in Temporarily Restricted Net Assets	<u>230,248</u>	<u>-</u>	<u>230,248</u>
Total Changes in Net Assets	465,917	(443,435)	22,482
Net Assets - Beginning of year	<u>7,931,362</u>	<u>-</u>	<u>7,931,362</u>
Net Assets - End of year	<u>\$ 8,397,279</u>	<u>\$ (443,435)</u>	<u>\$ 7,953,844</u>

The accompanying notes are an integral part of these consolidated financial statements.

FARESTART
Consolidated Statement of Functional Expenses
Year Ended December 31, 2010

	Food	Management and General		Total		Total All
	Service			Management and		
	Training	FareStart	Properties, LLC	and		
	Program	FareStart	Properties, LLC	General	Fundraising	Services
Salaries and wages	\$ 2,095,025	481,977	-	481,977	279,274	2,856,276
Payroll taxes and benefits	411,057	82,960	-	82,960	43,836	537,853
Total wages and related expenses	2,506,082	564,937	-	564,937	323,110	3,394,129
Restaurant and café operating expenses:						
Linen services	50,266	1,295	-	1,295	-	51,561
Paper supplies	58,317	-	-	-	-	58,317
Repairs and maintenance	34,234	1,418	-	1,418	887	36,539
Other	118,264	11,251	-	11,251	10,355	139,870
Total restaurant and café operating expenses	261,081	13,964	-	13,964	11,242	286,287
Advertising	-	981	-	981	31,143	32,124
Bad debt and other losses	-	(2,874)	-	(2,874)	(4)	(2,878)
Bank charges	37,552	11,938	-	11,938	19,634	69,124
Board and staff development	11,059	29,284	-	29,284	3,334	43,677
Program materials and meetings	317	30	-	30	820	1,167
Complimentary meals	13,418	110	-	110	1,203	14,731
Insurance	54,431	3,953	-	3,953	2,433	60,817
Interest	780	627	221,424	222,051	-	222,831
Miscellaneous expense	7,125	6,426	-	6,426	9,325	22,876
Occupancy	358,029	30,626	-	30,626	24,046	412,701
Professional fees	164,414	93,235	25,913	119,148	42,736	326,298
Space rental	-	-	-	-	67,894	67,894
Student and staff meals	52,403	1,781	-	1,781	1,231	55,415
Student support	360,126	654	-	654	-	360,780
Supplies, postage and copies	71,979	14,448	-	14,448	63,984	150,411
Transportation	14,605	2,171	-	2,171	685	17,461
Depreciation and amortization	70,159	34,044	547,077	581,121	-	651,280
Total Expenses as Shown on the Statements of Unrestricted Activities	3,983,560	806,335	794,414	1,600,749	602,816	6,187,125
Cost of goods sold:						
Food purchases	679,475	-	-	-	-	679,475
Supplies and other	2,185	-	-	-	-	2,185
In-kind donations of food	145,428	-	-	-	59,891	205,319
Total cost of goods sold	827,088	-	-	-	59,891	886,979
Total	\$ 4,810,648	806,335	794,414	1,600,749	662,707	7,074,104

The accompanying notes are an integral part of these consolidated financial statements.

FARESTART
Consolidated Statement of Functional Expenses
Year Ended December 31, 2009

	Food	Management and General		Total	Total	Total
	Service	FareStart		Management		
	Training	FareStart	Properties, LLC	and		
	Program			General	Fundraising	All
						Services
Salaries and wages	\$ 1,779,305	314,648	-	314,648	304,162	2,398,115
Payroll taxes and benefits	341,488	56,209	-	56,209	40,640	438,337
Total wages and related expenses	2,120,793	370,857	-	370,857	344,802	2,836,452
Restaurant and café operating expenses:						
Linen services	50,287	1,496	-	1,496	-	51,783
Paper supplies	54,982	-	-	-	-	54,982
Repairs and maintenance	27,811	687	-	687	516	29,014
Other	110,435	9,383	-	9,383	10,083	129,901
Total restaurant and café operating expenses	243,515	11,566	-	11,566	10,599	265,680
Advertising	-	1,553	-	1,553	35,641	37,194
Bad debt and other losses	-	11,530	-	11,530	5,000	16,530
Bank charges	31,908	11,166	184	11,350	19,692	62,950
Board and staff development	12,152	26,693	-	26,693	3,357	42,202
Program materials and meetings	-	126	-	126	2,246	2,372
Complimentary meals	2,120	65	-	65	249	2,434
Insurance	58,680	3,934	-	3,934	2,951	65,565
Interest	847	989	236,412	237,401	-	238,248
Miscellaneous expense	2,849	11,143	-	11,143	7,838	21,830
Occupancy	347,415	36,169	-	36,169	32,083	415,667
Professional fees	72,603	146,213	30,684	176,897	45,583	295,083
Space rental	-	-	-	-	62,519	62,519
Student and staff meals	58,762	1,902	-	1,902	1,615	62,279
Student support	345,678	798	-	798	-	346,476
Supplies, postage and copies	73,063	13,620	-	13,620	74,768	161,451
Transportation	4,729	315	-	315	382	5,426
Depreciation and amortization	29,529	6,971	591,249	598,220	2,044	629,793
Total Expenses as Shown on the Statements of Unrestricted Activities	3,404,643	655,610	858,529	1,514,139	651,369	5,570,151
Cost of goods sold:						
Food purchases	660,628	-	-	-	-	660,628
Supplies and other	1,968	-	-	-	-	1,968
In-kind donations of food	95,154	-	-	-	22,448	117,602
Total cost of goods sold	757,750	-	-	-	22,448	780,198
Total	\$ 4,162,393	655,610	858,529	1,514,139	673,817	6,350,349

The accompanying notes are an integral part of these consolidated financial statements.

FARESTART
Consolidated Statements of Cash Flows
Years Ended December 31, 2010 and 2009

	2010	2009
Cash flows provided (used) in operating activities:		
Cash received from:		
Public contracts	\$ 768,996	\$ 828,113
Private grants	814,725	1,073,003
Donors	1,833,607	1,731,929
Sales to the public	2,445,385	2,344,460
Interest and other	244,316	237,238
Cash paid for:		
Personnel	(3,362,186)	(2,992,249)
Services and supplies	(2,353,279)	(2,379,471)
Interest	(140,800)	(155,942)
Net cash provided (used) in operating activities	250,764	687,081
Cash flows provided (used) in investing activities:		
Restricted escrow and reserve accounts	(173,181)	(487,237)
Note receivable	(50,000)	145,147
Purchases of property and equipment	(59,202)	(89,096)
Net cash provided (used) in investing activities	(282,383)	(431,186)
Cash flows provided (used) in financing activities:		
Receipts of public support restricted to investment in new facility	61,743	8,677
Noncontrolling interest return	(16,192)	(16,192)
Principal borrowing (payments) on notes payable	(23,337)	113,098
Net cash provided (used) in financing activities	22,214	105,583
Net increase (decrease) in cash	(9,405)	361,478
Cash and cash equivalents at beginning of year	2,166,775	1,805,297
Cash and cash equivalents at end of year	\$ 2,157,370	\$ 2,166,775
 Reconciliation of Changes in Net Assets to Net Cash Provided (Used) By Operating Activities:		
Changes in net assets	\$ (223,783)	\$ 22,482
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	651,280	629,793
Donation of equipment	(341,494)	-
Noncontrolling interest priority return	16,192	16,192
Discount on public support restricted to investment in new facilit	12,753	3,069
Decrease (increase) in:		
Accounts receivable	75,986	154,219
Prepaid expenses	(11,367)	(23,082)
Inventory	(3,969)	3,184
(Decrease) increase in:		
Accounts payable	(45,377)	(50,829)
Accrued expenses	113,974	(73,491)
Deferred revenue	6,569	5,544
Net cash provided (used) by operating activities	\$ 250,764	\$ 687,081

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

During the year ended December 31, 2010, FareStart received a \$341,494 in-kind donation of software that was capitalized and included in Property and Equipment.

FareStart

Notes to Consolidated Financial Statements
Years Ended December 31, 2010 and 2009

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Founded in 1992, FareStart transforms the lives of homeless and disadvantaged men and women, building self-sufficiency through job training and placement in the food service industry. This is accomplished through providing a culinary training program that combines classroom instruction with hand-on experience in the kitchen. The comprehensive program includes kitchen and classroom training, and support services such as housing, case management and counseling. Working with chef instructors, students assist with the preparation of over 2,500 meals daily. The sales of these meals through the FareStart Restaurant, the FareStart Café at 2100, FareStart catering, and to homeless shelters, daycare centers, and Head Start programs account for a substantial portion of the operating revenue.

In partnership with YouthCare, FareStart also offers an eight-week Barista Training and Education Program for homeless youth, aiming to provide a positive early intervention in the lives of young people, reconnecting them with their communities and preventing future homelessness.

FareStart financed the construction of a 33,000 square foot facility in 2006. This \$12.8 million project was paid for through the completion of an \$8.5 million capital campaign, new market tax credits, historic tax credits and state funding. FareStart's facility has enabled it to grow its businesses and to more than double the number of students it serves annually.

FareStart has long served as a model of food-service social enterprise for other organizations around the country and beyond, and has recently expanded its reach into the national arena through the creation of Catalyst Kitchens, a collaborative, learning network of programs using food-service job training, with the goal of greatly increasing the individual and collective impact of member organizations.

Principles of consolidation

The consolidated financial statements include the accounts of FareStart and its subsidiary, FareStart Properties, LLC (FSP LLC). FareStart holds a 53% interest in FSP LLC and is the managing member. FSP LLC was formed in 2005. All material intercompany transactions between the entities have been eliminated.

Basis of presentation

The accompanying consolidated financial statements have been prepared in conformity with the disclosure and display requirements of the Presentation of Financial Statements for Not-for-Profit Entities Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification. This Topic establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into three net asset classes according to donor imposed restrictions: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The net assets of FareStart are classified as follows:

- Unrestricted net assets are available without restriction for support of FareStart's operations.
- Temporarily restricted net assets are restricted by the donor to be used for certain purposes or future periods and consisted of \$73,553 and \$235,248 at December 31, 2010 and 2009, respectively.
- Permanently restricted net assets are endowment gifts given with the intent that the principal will be maintained intact in perpetuity, and the income may be used for current operations or specific purposes. FareStart had no permanently restricted net assets at December 31, 2010 and 2009.

These notes are an integral part of the consolidated financial statements.

FareStart

Notes to Consolidated Financial Statements, continued
Years Ended December 31, 2010 and 2009

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of accounting

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Cash and cash equivalents

Cash and cash equivalents consist of general checking, savings, and money market accounts. FareStart maintains its cash and cash equivalents in bank accounts that may exceed federally insured limits at times during the year. FareStart has not experienced any losses in these accounts, and management does not believe it is exposed to any significant credit risk.

Accounts receivable

Accounts receivable includes amounts owing from contract meal sales, catering, and government grants, is stated at net realizable value and is unsecured. Management provides for uncollectible accounts receivable through a provision for bad debts expense and an adjustment to the allowance for doubtful accounts based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to the applicable accounts receivable. Accounts receivable are considered past due when not paid in accordance with the various contract and grant agreements. As of December 31, 2010 and 2009, the allowance for doubtful accounts was \$10,169 and \$16,110, respectively.

Promises to give

Unconditional promises to give are stated at net realizable value. In accordance with financial accounting standards, unconditional promises to give are recognized as support in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. FareStart uses the allowance method to determine uncollectible unconditional promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made.

Inventory

Inventory is stated at the lower of cost or market under the first-in, first-out method of accounting, and consists of food and supplies.

Use of estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Property and equipment

Property and equipment are stated at cost or, if donated, at market value at date of donation. Property and equipment with an original cost of \$3,000 or greater are capitalized. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, principally three to seven years for furniture and equipment, three years for vehicles, seven years for leasehold improvements and forty years for buildings.

These notes are an integral part of the consolidated financial statements.

FareStart

Notes to Consolidated Financial Statements, continued
Years Ended December 31, 2010 and 2009

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

Property and equipment, continued

Property and equipment consisted of the following at December 31:

	<u>2010</u>	<u>2009</u>
Land	\$ 2,442,204	\$ 2,442,204
Building and improvements	6,872,398	6,872,398
Furniture, equipment and software	2,011,650	1,692,612
Vehicles	<u>115,907</u>	<u>81,522</u>
	11,452,364	11,088,736
Less accumulated depreciation	<u>(1,866,138)</u>	<u>(1,448,725)</u>
	<u>\$ 9,586,226</u>	<u>\$ 9,640,011</u>

Advertising expenses

Advertising is expensed as incurred. For the years ended December 31, 2010 and 2009, advertising expense was \$32,124 and \$37,194, respectively.

Capitalized costs

Amortizable fees and costs, such as loan and transaction fees, are stated at cost and are amortized on the straight-line basis over periods from seven to thirty years. Amortization expense for the years ended December 31, 2010 and 2009 was \$196,799 and \$196,987, respectively.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of unrestricted activities and of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services.

A portion of food waste in the kitchen operations is allocated from food cost of goods sold to student support expenses. FareStart operates a production and training kitchen. As a result, FareStart incurs additional food waste above and beyond the waste that would normally be associated with a production kitchen that does not train students.

Restricted and unrestricted support

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of unrestricted activities as net assets released from restrictions.

Gifts of property and equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

These notes are an integral part of the consolidated financial statements.

FareStart

Notes to Consolidated Financial Statements, continued
Years Ended December 31, 2010 and 2009

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

Donated goods and services

Donated goods and use of facilities are recorded as contributions at their estimated fair values at the date of donation. In accordance with financial accounting standards, the consolidated financial statements reflect only those donated services requiring specific expertise that FareStart would otherwise need to purchase.

Donated goods and services for the year ended December 31, 2010 include food donations of \$205,319 and various other in-kind contributions totaling \$649,473.

Donated goods and services for the year ended December 31, 2009 include food donations of \$117,601 and various other in-kind contributions totaling \$219,511.

In addition, FareStart receives a substantial amount of services donated by people interested in FareStart's programs. The consolidated financial statements do not reflect the value of these donated services. The kinds of services provided generally involve the contribution of time to the food services program and special events.

Federal income taxes

The Internal Revenue Service has recognized FareStart as exempt from federal income taxes under the provisions of Section 501(a) of the Internal Revenue Code as an entity described in Section 501(c)(3) and is classified as an organization other than a private foundation under Section 509(a)(1).

FSP LLC is not a taxpaying entity for federal income tax purposes, and thus no income tax expense has been recorded in the financial statements. Income from FSP LLC is taxed to the members in their respective tax returns. Differences between tax and financial statement income result primarily from 1) the use of accelerated depreciation for federal income tax purposes and 2) the expensing of organization and start-up costs for financial reporting purposes versus capitalization and amortization for federal income tax purposes.

FareStart accounts for tax positions in accordance with the Recognition and Initial Measurement Sections of the Income Taxes Topic of the Financial Accounting Standards Board Accounting Standards Codification. With few exceptions, FareStart is subject to federal and state income tax examinations by tax authorities for the prior three years. Management has reviewed FareStart's tax positions and determined there were no uncertain tax positions as of December 31, 2010 and 2009.

FareStart recognizes income tax related interest in interest expense and penalties in operating expenses. During the years ended December 31, 2010 and 2009, FareStart recognized no income tax related interest or penalties.

Reclassifications

Certain balances in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. These reclassifications had no effect on the change in net assets.

FareStart

Notes to Consolidated Financial Statements, continued
Years Ended December 31, 2010 and 2009

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

Impairment of Long-Lived Assets

FareStart reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the future net undiscounted cash flow expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived assets are considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount exceeds the fair, value as determined from an appraisal, discounted cash flow analysis, or other valuation techniques. There were no impairment losses recognized for the years ended December 31, 2010 and 2009.

NOTE 2 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 19, 2011, which is the date the financial statements were available to be issued.

NOTE 3 – PROMISES TO GIVE

Unconditional promises to give at December 31 are due as follows:

	<u>2010</u>	<u>2009</u>
Due in less than one year	\$ 36,317	\$ 77,773
Due in two to five years	<u>78,213</u>	<u>103,260</u>
	114,530	181,033
Less allowance for uncollectible amounts	(43,092)	(31,998)
Less discount to present value at 2 %	<u>(1,190)</u>	<u>(4,291)</u>
Total unconditional promises to give	\$ <u>70,248</u>	\$ <u>144,744</u>

At December 31, 2010, 96% of the unconditional promises to give were from three major donors. At December 31, 2009, 85% of the unconditional promises to give were from three major donors.

NOTE 4 – RESERVE ACCOUNTS AND BOARD DESIGNATIONS

Reserve accounts, consisting of cash and cash equivalents, at December 31 are restricted and designated as follows:

	<u>2010</u>	<u>2009</u>
Building related reserves and escrow deposits (FSP LLC)	\$ 503,299	\$ 530,591
Board designated building and equipment reserve (FareStart)	482,189	481,910
Board designated operating reserve (FareStart)	<u>400,251</u>	<u>200,057</u>
	\$ <u>1,385,739</u>	\$ <u>1,212,558</u>

During 2009, the FareStart Board passed resolutions creating two Board designated reserve funds: (1) building and equipment reserve of \$481,824 and (2) operating reserve of \$300,000. Subsequent to year end, FareStart funded the operating reserve to meet the \$300,000 Board resolution.

FareStart

Notes to Consolidated Financial Statements, continued
Years Ended December 31, 2010 and 2009

NOTE 5 – NOTE RECEIVABLE

As part of the financing agreement for the Jersey Building renovation, FareStart agreed to loan up to \$10,218,141 to CDF IV, LLC. As of December 31, 2010 and 2009, FareStart had loaned \$9,698,806 and \$9,648,806, respectively. Under the terms of the agreement, the outstanding principal and any unpaid interest, at 1% per year, is due on March 31, 2036.

NOTE 6 - LINE OF CREDIT

FareStart has a \$500,000 unsecured, revolving line of credit expiring on September 30, 2011. Advances on the line of credit are payable on demand and carry interest at 3.2% over the one month LIBOR rate. There were no advances outstanding as of December 31, 2010 and 2009.

NOTE 7 – RELATED PARTY TRANSACTIONS

Jersey Building Transactions

FareStart purchased a 33,000 square foot building, the Jersey Building, in July, 2004. The building was renovated and houses their main restaurant, training center and offices. The new facility has a 6,000 square foot kitchen and accommodates twice the number of students of its prior facility. The new restaurant was designed for efficient operations, private dining, catered parties and meetings. Three classrooms accommodate all life skills and food service training. A locker room and lunchroom is provided to all students, and the new office space provides space for all FareStart staff to be housed in one building.

As part of the Jersey Building financing, FareStart established FareStart Properties LLC, of which FareStart owns 53% and is the managing member. FareStart sold the building, land and building improvements to FareStart Properties, LLC in March 2006 to facilitate the tax credit financing. FareStart received \$3,643,674 of cash from FareStart Properties, LLC and an initial equity interest of \$925,000 in the LLC. FareStart entered into a development services agreement with FareStart Properties LLC to perform project planning, feasibility, and construction management of the Project and earned a developer fee of \$2,412,261, payable under various terms as specified in the agreement.

FareStart Master Tenant, LLC was established as part of the financing package. FareStart is the non-owner manager of FareStart Master Tenant, LLC. FareStart Master Tenant, LLC has executed a lease agreement for the Jersey Building from FareStart Properties, LLC. FareStart has executed a sublease agreement to lease the property from FareStart Master Tenant, LLC for \$132,384 per year. The sublease agreement terminates March 2013 and contains an option to renew the lease through March 2026.

FareStart completed the renovation of the Jersey Building and placed it in service on December 31, 2006. FareStart has committed to loan up to \$10,218,141 as part of the tax credit financing transaction. In addition, FareStart has agreed to operate the property in accordance with New Market and Historic tax credit regulations during the compliance period.

Board of Director Contributions

During the years ended December 31, 2010 and 2009, respectively, FareStart received \$209,762 and \$179,646 in contributions from the members of the Board of Directors.

FareStart

Notes to Consolidated Financial Statements, continued
Years Ended December 31, 2010 and 2009

NOTE 8 – NOTES PAYABLE

FareStart had the following notes payable as of December 31:

	2010	2009
<p>Note payable to Community Development Funding IV, LLC (Note 1). The note has a maturity date of March 31, 2013 and bears interest at 6.75%. Interest is payable monthly in accordance with the terms of the note, and the principal is payable in full on the due date. The note is guaranteed by FareStart.</p>	\$ 600,000	600,000
<p>Note payable to Community Development Funding IV, LLC (Note 2). The note has a maturity date of March 31, 2036 and bears interest at 1.275%. Interest is partially payable monthly in accordance with the terms of the note, and the principal is payable in full on the due date. The note is guaranteed by FareStart.</p>	10,460,190	10,460,190
<p>Note payable to Community Development Funding V, LLC (Note 3). The note has a maturity date of March 31, 2036 and bears interest at 1.0%. Interest is partially payable monthly in accordance with the terms of the note, and the principal is payable in full on the due date. The note is guaranteed by FareStart.</p>	4,600,000	4,600,000
<p>Community Development Block Grant pass-through from City of Seattle to finance the Jersey Building. The note is non-interest bearing and is unsecured. As long as FareStart does not sell or use the property for an unauthorized purpose, the loan will be forgiven on the maturity date of September 30, 2013. In the event the property is sold or used for an unauthorized purpose, the loan is payable on demand and subject to additional interest at a minimum of 12%.</p>	97,359	97,359
<p>Note payable for a 2008 Chevrolet Van. The note bears interest at 6.49%, requires monthly payments of \$386, is secured by the vehicle and matures in January 2012.</p>	-	9,782
<p>Note payable for a 2008 Chevrolet Van. The note bears interest at 6.49%, requires monthly payments of \$359, is secured by the vehicle and matures in January 2012.</p>	-	9,600
Totals	\$ 15,757,549	\$ 15,776,931

These notes are an integral part of the consolidated financial statements.

FareStart

Notes to Consolidated Financial Statements, continued
Years Ended December 31, 2010 and 2009

NOTE 8 – NOTES PAYABLE, continued

Future minimum principal payments under these notes for years ending December 31 are as follows:

2011	\$	-
2012		-
2013		697,359
2014		-
2015		-
Thereafter		<u>15,060,190</u>
	\$	<u>15,757,549</u>

NOTE 9 – LEASE COMMITMENTS

FareStart leases equipment under a non-cancelable capital lease agreement. At December 31, 2010, the equipment had a total cost of \$19,314 and accumulated depreciation at of \$16,417. Total monthly payments are \$386 including interest of 9.5% per year.

Scheduled lease payments for the years ending December 31, are as follows:

2011	\$	4,632
Less interest		<u>(180)</u>
	\$	<u>4,452</u>

FareStart leases certain of its main office and branch locations pursuant to terms of various operating lease agreements. FareStart signed a sublease agreement to lease the Jersey Building from FareStart Master Tenant, LLC for \$132,384 per year. The sublease agreement terminates March 2013 and contains an option to renew the lease through March 2026. FareStart intends to exercise the option to renew the lease.

Rent expense under these leases was \$146,112 and \$145,935 for the years ended December 31, 2010 and 2009, respectively, and is included in occupancy expense.

Future minimum payments under these leases for the years ending December 31, are as follows:

2011	\$	146,319
2012		132,384
2013		132,384
2014		132,384
2015		132,384
Thereafter		<u>1,588,608</u>
	\$	<u>2,264,463</u>

FareStart

Notes to Consolidated Financial Statements, continued Years Ended December 31, 2010 and 2009

NOTE 9 – LEASE COMMITMENTS, continued

FareStart Properties, LLC is leasing the Jersey Building to FareStart Master Tenant, LLC. The lease is a triple net lease and has a thirty-two year term. The base annual rental income for the years 2007 through 2012 is \$94,928 per year. During 2013 the annual rental rate will adjust and is based on Fair Market Value Lease Payment, as defined in the lease.

Minimum rental income for each of the next five years ending December 31 and thereafter are:

2011	\$	94,928
2012		94,928
2013		94,928
2014		94,928
2015		94,928
Thereafter		<u>973,012</u>
	\$	<u>1,447,652</u>

NOTE 10 – ECONOMIC CONCENTRATIONS AND CONTINGENCIES

FareStart receives contract revenue from three government agencies which provided 18% and 20% of FareStart's unrestricted operating revenue for the years ended December 31, 2010 and 2009, respectively. These contracts are subject to audit, which could result in adjustments to revenue. The adjustments are recorded at the time that such amounts can first be reasonably determined, normally upon notification by the government agency. During the years ended December 31, 2010 and 2009, no such adjustments were made.

FareStart owns one property located in Seattle, Washington and operates at two other locations in Seattle, Washington. Future operations could be affected by changes in economic or other conditions in that geographical area.

The FareStart Properties, LLC Agreement provides for various agreements between the managing member (FareStart) and the investor member. These guarantees include operating deficit, recapture and required reserves, and provides for obligations on the part of the managing member if certain conditions outlined in the agreements are not met. The LLC Agreement provides for various obligations of the managing member, including the managing member's obligation to provide funds for operating deficits and reduced tax benefits.

The LLC is subject to compliance requirements and has agreed to operate the property in accordance with New Market and Historic Tax Credit regulations during the compliance period.

FareStart

Notes to Consolidated Financial Statements, continued
Years Ended December 31, 2010 and 2009

NOTE 11 – NONCONTROLLING INTEREST AND RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In January 2010, the Financial Accounting Standards Board issued an Accounting Standards Update (ASU) No. 2010-07, *Not-for-Profit Entities (Topic 958) – Not-for-Profit Entities: Mergers and Acquisitions*. This update provides guidance on accounting for not-for-profit consolidations of other entities. The provisions of ASU 2010-07, which are included in the Not-for-Profit Topic of the Financial Accounting Standards Board Accounting Standards Codification and the related Subtopic on consolidations, which are to be applied prospectively to consolidations, were effective beginning January 1, 2010. This topic reclassifies the noncontrolling interest from other liabilities to unrestricted net assets for all periods presented in the consolidated statements of financial position and has separately reported the change in the noncontrolling interest in unrestricted net assets in the consolidated statements of changes in net assets for all periods presented. The implementation of this topic did not affect total net assets as of January 1, 2009.

NOTE 12 – SUMMARIZED CONSOLIDATING SCHEDULES FOR 2010

The consolidated financial statements include the accounts of FareStart and its subsidiary, FareStart Properties, LLC (FSP LLC). FareStart holds a 53% interest in FSP LLC and is the managing member. Therefore the consolidated financial statements reflect the ongoing operating activities of FareStart as well as the operations of FSP LLC.

	FareStart	FareStart Properties, LLC	Eliminating Entries	Consolidated Balances
Assets	<u>\$ 12,666,950</u>	<u>14,041,827</u>	<u>(2,533,199)</u>	<u>24,175,578</u>
Liabilities	\$ 704,652	15,871,480	(122,743)	16,453,389
Noncontrolling Interest	-	-	-	-
Net Assets	<u>11,962,298</u>	<u>(1,829,653)</u>	<u>(2,410,456)</u>	<u>7,722,189</u>
Total Net Assets and Liabilities	<u>\$ 12,666,950</u>	<u>14,041,827</u>	<u>(2,533,199)</u>	<u>24,175,578</u>

These notes are an integral part of the consolidated financial statements.

FareStart

Notes to Consolidated Financial Statements, continued
Years Ended December 31, 2010 and 2009

NOTE 12 – SUMMARIZED CONSOLIDATING SCHEDULES FOR 2010, Continued

As reflected in the schedule below, FareStart recorded an increase in net assets of \$539,061, reflecting income and revenues in excess of expenses. FSP LLC has recorded a net decrease of \$863,791, due primarily to building depreciation expense and mortgage interest expense related to the building.

	FareStart	FareStart Properties, LLC	Eliminating Entries	Consolidated Balances
Operating Revenue	\$ 2,650,704	-	-	2,650,704
Cost of goods sold	886,979	-	-	886,979
Net Operating Revenue	<u>1,763,725</u>	<u>-</u>	<u>-</u>	<u>1,763,725</u>
Unrestricted Public Support and Other Revenue				
Grants, contracts and contributions	2,687,689	-	-	2,687,689
In-kind contributions - other	649,473	-	-	649,473
Special events, net of direct benefits to donors	560,778	-	-	560,778
Interest and other revenue	204,428	94,928	(55,040)	244,316
Total Unrestricted Public Support and other revenue	<u>4,102,368</u>	<u>94,928</u>	<u>(55,040)</u>	<u>4,142,256</u>
Total Unrestricted Support and Revenue	5,866,093	94,928	(55,040)	5,905,981
Expenses:				
Wages and related expenses	3,394,129	-	-	3,394,129
Restaurant and café operating expenses	286,287	-	-	286,287
Advertising	32,124	-	-	32,124
Bank charges, bad debt and other expenses	66,246	-	-	66,246
Board and staff development	43,677	-	-	43,677
Program materials and meetings	1,167	-	-	1,167
Complimentary meals	14,731	-	-	14,731
Insurance	60,817	-	-	60,817
Interest	1,407	221,424	-	222,831
Miscellaneous expense	22,876	-	-	22,876
Occupancy	412,701	-	-	412,701
Professional fees	300,385	80,953	(55,040)	326,298
Space rental	67,894	-	-	67,894
Student and staff meals	55,415	-	-	55,415
Student support	360,780	-	-	360,780
Supplies, postage and copies	150,411	-	-	150,411
Transportation	17,461	-	-	17,461
Depreciation and amortization	104,203	640,150	(93,073)	651,280
Total Expenses	5,392,711	942,527	(148,113)	6,187,125
Noncontrolling interest in FareStart Properties, LLC - priority return	-	(16,192)	-	(16,192)
Restricted revenue	73,553	-	-	73,553
Total change in net assets	<u>\$ 546,935</u>	<u>(863,791)</u>	<u>93,073</u>	<u>(223,783)</u>

These notes are an integral part of the consolidated financial statements.

Supplementary Financial Information

FARESTART
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2010

	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
Department of Housing and Urban Development:			
Supportive Housing Program			
Pass-Through Program From Workforce Development Council of Seattle King County (WDC)	14.235	T8FAR-402-HUD	\$ 27,462
Pass-Through Program From Workforce Development Council of Seattle King County (WDC)	14.235	T9FAR-402-HUD	327,044
Community Development Block Grant			
Pass-Through Program From City of Seattle Human Services Department	14.218	DL #06-1526	97,359
Department of Agriculture:			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program			
Pass-Through Program From Washington State Department of Social and Health Services - Basic Food Employment and Training	10.561	0812-48750	236,144
Supplemental Nutrition Assistance Program Pass-Through Program From Washington State Department of Social and Health Services - Basic Food Employment and Training	10.561	1012-10495	99,835
Department of Agriculture: Community Food Projects	10.225	10-029-33800	<u>2,525</u>
Total Expenditures of Federal Awards			<u>\$ 790,369</u>

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of FareStart under programs of the federal government for the year ended December 31, 2010. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Because the schedule presents only a selected portion of the operations of FareStart, it is not intended to and does not present the financial position, changes in net assets or cash flows of FareStart.

FARESTART

Schedule of Expenditures of Federal Awards, continued Year Ended December 31, 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, Cost Principles for Non-profit Organizations, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

NOTE 3 – LOANS OUTSTANDING

FareStart had a Community Development Block Grant forgivable loan outstanding (CFDA 14.218) for \$97,359 at December 31, 2010.

**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
FareStart
Seattle, Washington

We have audited the consolidated financial statements of FareStart, as of and for the year ended December 31, 2010, and have issued our report thereon dated March 19, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered FareStart's internal control over financial reporting as a basis for designing our auditing procedures 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 FareStart's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of FareStart's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the board of directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Finney, Neill & Company, P.S.

March 19, 2011

Independent Auditors' Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Board of Directors
FareStart
Seattle, Washington

Compliance

We have audited FareStart's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of FareStart's major federal programs for the year ended December 31, 2010. FareStart's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of FareStart's management. Our responsibility is to express an opinion on FareStart's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about FareStart'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. Our audit does not provide a legal determination of FareStart's compliance with those requirements.

In our opinion, FareStart complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

Internal Control Over Compliance

Management of FareStart is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered FareStart's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of FareStart's internal control over compliance.

Independent Auditors' Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133, continued

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 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the board of directors, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties

Finney, Neill & Company, P.S.

March 19, 2011

FARESTART
 Schedule of Findings and Questioned Costs
 Year Ended December 31, 2010

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued Unqualified
 Internal control over financial reporting:
 • Material weakness(es) identified? _____ yes X no
 • Significant deficiency(ies) identified that are
 not considered to be material weaknesses? _____ yes X none reported
 Noncompliance material to financial
 statements noted? _____ yes X no

Federal Awards

Internal control over major programs:
 • Material weakness(es) identified? _____ yes X no
 • Significant deficiency(ies) identified that are
 not considered to be material weaknesses? _____ yes X none reported

Type of auditor’s report issued on compliance
 for major programs Unqualified

Any audit findings disclosed that are required
 to be reported in accordance with section
 510(a) of OMB Circular A-133? _____ yes X no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program</u>
14.235	Department of Housing and Urban Development Supportive Housing Program
14.218	Department of Housing and Urban Development Community Development Block Grant
10.561	Department of Agriculture Supplemental Nutrition Assistance Program

Dollar threshold used to distinguish between
 type A and type B programs: \$300,000

Auditee qualifies as low-risk auditee? _____ yes X no

FARESTART

Schedule of Findings and Questioned Costs, continued
Year Ended December 31, 2010

Section II – Financial Statement Findings

NONE

FARESTART
Schedule of Findings and Questioned Costs, continued
Year Ended December 31, 2010

Section III – Federal Award Findings and Questioned Costs

NONE

FARESTART
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2010

2009-1 In-kind Contributions

Finding

FareStart's procedures over recording in-kind contributions related to donated profession services and auction items did not ensure that all transactions were recorded during the year.

Criteria

Generally accepted accounting principles require all in-kind contributions to be recorded when received.

Statement of Condition

In-kind contributions of professional services and auction items totaling \$87,886 were not recorded during the current year. Donor reports provided by the development department to the accounting department did not include these donations. Additionally, there was no review process in place to ensure that the reports provided were complete.

The fact that these transactions were not recorded was not prevented or identified by FareStart's internal control system during the normal course of business.

Effect of Condition

Without adequate procedures, FareStart may provide its Board, internal management, and/or third-parties with financial information that is inaccurate or incomplete.

Recommendation

FareStart should enhance its procedures to ensure that in-kind contribution detail is properly recorded and that financial reports provided to its Board, internal management, and/or third-parties are accurate and complete.

FareStart Management Response and Corrective Action Plan

We agree with the auditors' comments and we have taken steps to ensure that all in-kind contributions are recorded promptly and accurately and that the financial reports we prepare and provide are accurate and complete. We have documented and communicated a more comprehensive process for capturing and recording all in-kind contributions of goods and services, trained the appropriate staff on the procedure and implemented a management review process that will ensure the information recorded for in-kind contributions of goods and services are accurate and complete.

Current Status

FareStart has resolved this issue and modified its processes to capture and record all in-kind donations.