

**FARESTART**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**AND**  
**FEDERAL SINGLE AUDIT REPORTS**  
**DECEMBER 31, 2012 AND 2011**

**FARESTART**  
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**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
FareStart

***Report on the Financial Statements***

We have audited the accompanying consolidated financial statements of FareStart (a nonprofit organization), which comprise the consolidated statements of financial position as of December 31, 2012 and 2011, and the related consolidated statements of unrestricted activities, changes in net assets, statement of functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

## INDEPENDENT AUDITORS' REPORT, CONTINUED

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of FareStart as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2013 on our consideration of FareStart's internal control over financial reporting and on 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 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 FareStart's internal control over financial reporting and compliance.

*Finney, Neill & Company, P.S.*

Seattle, Washington  
April 26, 2013

**FARESTART**  
Consolidated Statements of Financial Position  
December 31, 2012 and 2011

<u>ASSETS</u>	<u>2012</u>	<u>2011</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,487,797	\$ 1,486,190
Accounts receivable	458,509	477,785
Investments, at fair value	413,647	399,900
Promises to give - current, net	297,462	281,062
Prepaid expenses	120,293	101,617
Inventory	<u>46,292</u>	<u>40,188</u>
Total Current Assets	2,824,000	2,786,742
Reserve accounts	218,963	695,699
Investments, at fair value - board restricted	970,192	763,168
Promises to give - capital project - long-term, net	-	24,611
Note receivable	-	9,748,806
Property and equipment, net	8,753,659	9,244,712
Capitalized costs, net	<u>-</u>	<u>553,599</u>
	<u>\$ 12,766,814</u>	<u>\$ 23,817,337</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
<b>Current Liabilities</b>		
Accounts payable	\$ 189,415	\$ 312,467
Accrued expenses	283,790	533,328
Deferred revenue	<u>112,499</u>	<u>98,468</u>
Total Current Liabilities	585,704	944,263
Notes Payable and Capital Lease Obligations, net of current portion	<u>97,359</u>	<u>15,757,549</u>
Total Liabilities	683,063	16,701,812
<b>Net Assets</b>		
Unrestricted - FareStart	11,646,152	7,920,291
Unrestricted - noncontrolling interest in FareStart Properties, LLC	-	(1,270,559)
Temporarily restricted	<u>437,599</u>	<u>465,793</u>
Total Net Assets	<u>12,083,751</u>	<u>7,115,525</u>
	<u>\$ 12,766,814</u>	<u>\$ 23,817,337</u>

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

**FARESTART**  
Consolidated Statements of Unrestricted Activities  
Years Ended December 31, 2012 and 2011

	2012	2011
Operating Revenue		
Food service revenue	\$ 3,251,593	\$ 2,606,153
Guest chef night	290,679	236,271
In-kind contributions - food	191,929	192,788
	3,734,201	3,035,212
Cost of goods sold	1,149,810	1,069,476
Net Operating Revenue	2,584,391	1,965,736
Unrestricted Public Support and Other Revenue		
Private grants	680,504	796,087
Public contracts	975,290	880,167
Contributions - operating	1,177,425	847,993
Contributions - capital projects	(715)	9,443
In-kind contributions - other	509,548	288,613
Special events, net of direct benefits to donors of \$222,851 and \$192,215	929,996	727,483
Services and membership dues - Catalyst Kitchens	144,149	102,969
Investment income	115,717	99,523
Other revenue	103,255	103,626
Total Unrestricted Public Support and other revenue	4,635,169	3,855,904
Debt forgiveness from unwind of New Markets Tax Credit project	5,768,813	-
Net Assets Released from Restrictions		
Satisfaction of purpose restrictions	412,779	202,760
Total Unrestricted Public Support, Revenue, and Other Support	13,401,152	6,024,400
Expenses		
Program services	5,149,670	4,538,873
Management and general:		
FareStart Operations	1,082,559	880,849
FareStart Properties, LLC	1,144,366	791,336
Fundraising	1,020,216	802,818
Total Expenses	8,396,811	7,013,876
Unrestricted revenue over (under) expenses	\$ 5,004,341	\$ (989,476)

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

**FARESTART**  
Consolidated Statements of Changes in Net Assets  
Years Ended December 31, 2012 and 2011

	December 31, 2012		
		Non- Controlling	
	FareStart	Interest	Total
Unrestricted Net Assets:			
Unrestricted revenue over (under) expenses	\$ 3,717,591	\$ 1,286,750	\$ 5,004,341
Net realized and unrealized gain (loss) on investments	8,270	-	8,270
Priority return	-	(16,191)	(16,191)
Change in Unrestricted Net Assets	3,725,861	1,270,559	4,996,420
Temporarily Restricted Activities:			
Satisfaction of purpose restrictions	(412,779)	-	(412,779)
Contributions - restricted	375,000	-	375,000
Net realized and unrealized gain (loss) on investments	9,585	-	9,585
Change in Temporarily Restricted Net Assets	(28,194)	-	(28,194)
Total Changes in Net Assets	3,697,667	1,270,559	4,968,226
Net Assets - Beginning of year	8,386,084	(1,270,559)	7,115,525
Net Assets - End of year	\$ 12,083,751	\$ -	\$ 12,083,751

	December 31, 2011		
		Non- Controlling	
	FareStart	Interest	Total
Unrestricted Net Assets:			
Unrestricted revenue over (under) expenses	\$ (593,107)	\$ (396,369)	\$ (989,476)
Net realized and unrealized gain (loss) on investments	(1,108)	-	(1,108)
Priority return	-	(16,192)	(16,192)
Change in Unrestricted Net Assets	(594,215)	(412,561)	(1,006,776)
Temporarily Restricted Activities:			
Satisfaction of purpose restrictions	(202,760)	-	(202,760)
Contributions - restricted	595,000	-	595,000
Change in Temporarily Restricted Net Assets	392,240	-	392,240
Total Changes in Net Assets	(201,975)	(412,561)	(614,536)
Net Assets - Beginning of year	8,588,059	(857,998)	7,730,061
Net Assets - End of year	\$ 8,386,084	\$ (1,270,559)	\$ 7,115,525

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

**FARESTART**  
Consolidated Statement of Functional Expenses  
Year Ended December 31, 2012

	Food	Management and General		Total		
	Service	FareStart		Management		
	Training	FareStart	Properties, LLC	and	Fundraising	Total
	Program			General		All
						Services
Salaries and wages	\$ 2,605,255	566,006	-	566,006	370,538	3,541,799
Payroll taxes and benefits	517,810	91,605	-	91,605	51,786	661,201
Total wages and related expenses	3,123,065	657,611	-	657,611	422,324	4,203,000
Restaurant and café operating expenses:						
Linen services	102,130	597	-	597	-	102,727
Paper supplies	50,722	-	-	-	-	50,722
Repairs and maintenance	26,468	573	-	573	260	27,301
Other	178,734	7,982	6,706	14,688	10,700	204,122
Total restaurant and café operating expenses	358,054	9,152	6,706	15,858	10,960	384,872
Advertising	338	2,092	-	2,092	76,033	78,463
Bad debt and other losses	-	1,821	-	1,821	-	1,821
Bank charges	46,553	13,479	81	13,560	29,868	89,981
Board and staff development	17,712	34,699	-	34,699	6,209	58,620
Complimentary meals	18,978	3,307	-	3,307	6,198	28,483
Insurance	52,386	5,149	-	5,149	2,335	59,870
Interest	-	-	223,451	223,451	-	223,451
Miscellaneous expense	17,676	12,180	-	12,180	44,982	74,838
New Markets Tax Credit unwind costs	-	127,533	-	127,533	-	127,533
Occupancy	404,186	41,844	-	41,844	17,070	463,100
Professional fees	222,378	78,040	10,719	88,759	192,275	503,412
Program materials and meetings	1,526	381	-	381	1,424	3,331
Space rental	1,500	-	-	-	114,781	116,281
Student and staff meals	78,534	7,716	-	7,716	3,498	89,748
Student support	491,393	677	-	677	29	492,099
Supplies, postage and copies	130,556	29,685	-	29,685	79,236	239,477
Transportation	41,425	3,547	-	3,547	3,335	48,307
Depreciation and amortization	143,410	53,646	903,409	957,055	9,659	1,110,124
Total Expenses as Shown on the Statements of Unrestricted Activities	5,149,670	1,082,559	1,144,366	2,226,925	1,020,216	8,396,811
Cost of goods sold:						
Food purchases	948,969	-	-	-	-	948,969
Supplies and other	8,912	-	-	-	-	8,912
In-kind donations of food	126,483	500	-	500	64,946	191,929
Total cost of goods sold	1,084,364	500	-	500	64,946	1,149,810
Total	\$ 6,234,034	1,083,059	1,144,366	2,227,425	1,085,162	9,546,621

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



**FARESTART**  
Consolidated Statement of Functional Expenses  
Year Ended December 31, 2011

	Food Service Training Program	Management and General FareStart		Total Management and General	Total Fundraising	Total All Services
	FareStart	Properties, LLC	General	Fundraising	Services	
Salaries and wages	\$ 2,314,906	546,981	-	546,981	330,616	3,192,503
Payroll taxes and benefits	488,876	91,263	-	91,263	46,792	626,931
Total wages and related expenses	<b>2,803,782</b>	638,244	-	<b>638,244</b>	<b>377,408</b>	<b>3,819,434</b>
Restaurant and café operating expenses:						
Linen services	71,456	1,760	-	1,760	-	73,216
Paper supplies	46,850	-	-	-	-	46,850
Repairs and maintenance	14,561	476	-	476	277	15,314
Other	148,548	11,947	-	11,947	15,297	175,792
Total restaurant and café operating expenses	<b>281,415</b>	14,183	-	<b>14,183</b>	<b>15,574</b>	<b>311,172</b>
Advertising	-	1,804	-	1,804	47,560	49,364
Bad debt and other losses	-	2,895	-	2,895	-	2,895
Bank charges	38,650	12,373	-	12,373	28,646	79,669
Board and staff development	16,443	32,815	-	32,815	5,689	54,947
Complimentary meals	39,066	830	-	830	904	40,800
Insurance	51,412	4,359	-	4,359	2,321	58,092
Interest	-	230	222,431	222,661	-	222,661
Miscellaneous expense	8,279	12,992	-	12,992	13,038	34,309
Occupancy	383,481	33,667	-	33,667	26,050	443,198
Professional fees	95,453	38,465	21,641	60,106	130,875	286,434
Program materials and meetings	1,367	226	-	226	698	2,291
Space rental	-	-	-	-	64,357	64,357
Student and staff meals	75,034	4,649	-	4,649	2,495	82,178
Student support	412,339	109	-	109	-	412,448
Supplies, postage and copies	161,369	18,248	-	18,248	76,986	256,603
Transportation	32,458	10,022	-	10,022	2,974	45,454
Depreciation and amortization	138,325	54,738	547,264	602,002	7,243	747,570
Total Expenses as Shown on the Statements of Unrestricted Activities	<b>4,538,873</b>	880,849	791,336	<b>1,672,185</b>	<b>802,818</b>	<b>7,013,876</b>
Cost of goods sold:						
Food purchases	876,617	-	-	-	-	876,617
Supplies and other	71	-	-	-	-	71
In-kind donations of food	138,997	-	-	-	53,791	192,788
Total cost of goods sold	<b>1,015,685</b>	-	-	-	<b>53,791</b>	<b>1,069,476</b>
Total	<b>\$ 5,554,558</b>	880,849	791,336	<b>1,672,185</b>	<b>856,609</b>	<b>8,083,352</b>

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

**FareStart**  
**Consolidated Statements of Cash Flow**  
**Years Ended December 31, 2012 and 2011**

	2012	2011
Cash flows provided (used) in operating activities:		
Cash received from:		
Public contracts	\$ 994,566	\$ 752,940
Private grants	694,535	853,216
Donors	2,490,632	2,170,476
Sales to the public	3,542,272	2,842,424
Services and membership dues - Catalyst Kitchens	144,149	102,969
Interest and dividends	115,717	99,523
Other	103,255	103,626
Cash paid for:		
Personnel	(4,197,117)	(3,783,779)
Services and supplies	(3,533,522)	(2,743,123)
Interest	(154,541)	(139,622)
Net cash provided (used) in operating activities	199,946	258,650
Cash flows provided (used) in investing activities:		
Restricted escrow and reserve accounts	476,736	690,040
Note receivable	-	(50,000)
Payment for acquisition of CDF IV Investment Fund, LLC and FareStart Master Tenant, LLC, net of cash received	202,008	-
Purchase of investments	(202,916)	(1,164,176)
Purchases of property and equipment	(65,472)	(209,068)
Net cash provided (used) in investing activities	410,356	(733,204)
Cash flows provided (used) in financing activities:		
Receipts of public support restricted based on time and activity	7,496	(175,982)
Noncontrolling interest return	(16,191)	(16,192)
Principal borrowing (payments) on notes payable	(600,000)	(4,452)
Net cash provided (used) in financing activities	(608,695)	(196,626)
Net increase (decrease) in cash	1,607	(671,180)
Cash and cash equivalents at beginning of year	1,486,190	2,157,370
Cash and cash equivalents at end of year	\$ 1,487,797	\$ 1,486,190
Reconciliation of Changes in Net Assets to Net Cash Provided (Used) By Operating Activities:		
Changes in net assets	\$ 4,968,226	\$ (614,536)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	1,110,124	747,570
Debt forgiveness from unwind of New Markets Tax Credit project	(5,768,813)	-
Donation of equipment	-	-
Noncontrolling interest priority return	16,191	16,192
Discount on public support restricted based on time and activity	715	(9,443)
Net realized and unrealized (gains) losses on investments	(17,855)	1,108
Decrease (increase) in:		
Accounts receivable	19,276	(127,227)
Prepaid expenses	(18,676)	(9,176)
Inventory	(6,104)	(6,585)
(Decrease) increase in:		
Accounts payable	(123,052)	84,924
Accrued expenses	5,883	118,694
Deferred revenue	14,031	57,129
Net cash provided (used) by operating activities	\$ 199,946	\$ 258,650

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:**

As described in Note 10, FareStart acquired CDF IV Investment Fund, LLC (CDF IV LLC) on December 31, 2012. Subsequent to the transaction, CDF IV LLC forgave the repayment of \$15,399,670 in notes and interest receivable from FareStart Properties, LLC and FareStart forgave the repayment of \$9,851,617 in notes and interest receivable from CDF IV LLC.

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

# FareStart

Notes to Consolidated Financial Statements  
Years Ended December 31, 2012 and 2011

## 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 hands-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 2,800 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 (the Project) was paid for through the completion of an \$8.5 million capital campaign, New Markets Tax Credit funding, 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 subsidiaries, FareStart Properties, LLC (FSP LLC), CDF IV Investment Fund, LLC (CDF IV LLC), and FareStart Master Tenant, LLC (FSMT LLC). Until December 31, 2012, FareStart held a 53% interest in FSP LLC as the managing member. As described in footnote 10, FareStart indirectly and beneficially acquired the remaining interest in FSP LLC on December 31, 2012 when it acquired FSMT LLC, which was previously the investor member of FSP LLC, owning the remaining 47% interest. FSP LLC, CDF IV LLC, and FSMT LLC were 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.

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

# FareStart

Notes to Consolidated Financial Statements  
Years Ended December 31, 2012 and 2011

## NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

### Basis of presentation, continued

- Temporarily restricted net assets are restricted by the donor to be used for certain purposes or future periods and consisted of \$437,599 and \$465,793 at December 31, 2012 and 2011, 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, 2012 and 2011.

### 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.

### Investments

Investments consist of investments in mutual funds which are classified as available-for-sale securities carried at fair value. Net unrealized investment gains (losses) related to available-for-sale securities are recorded in the total change in net assets. Interest and dividends earned are reported in interest and other income. FareStart uses quoted market prices or public market information to determine the fair value of its investments.

### 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 debt 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, 2012 and 2011, the allowance for doubtful accounts was \$14,102 and \$12,287, 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.

# FareStart

Notes to Consolidated Financial Statements  
Years Ended December 31, 2012 and 2011

## NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

### 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.

Property and equipment consisted of the following at December 31:

	<u>2012</u>	<u>2011</u>
Land	\$ 2,442,204	\$ 2,442,204
Building and improvements	6,919,382	6,872,398
Furniture, equipment and software	2,225,845	2,226,671
Vehicles	<u>120,159</u>	<u>120,159</u>
	11,707,590	11,661,432
Less accumulated depreciation	<u>(2,953,931)</u>	<u>(2,416,720)</u>
	<u>\$ 8,753,659</u>	<u>\$ 9,244,712</u>

### Advertising expenses

Advertising is expensed as incurred. For the years ended December 31, 2012 and 2011, advertising expense was \$78,463 and \$49,364, 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, 2012 and 2011 was \$553,559 and \$196,799, 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

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

## FareStart

Notes to Consolidated Financial Statements  
Years Ended December 31, 2012 and 2011

### NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

#### Functional allocation of expenses, continued

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.

#### 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, 2012 include food donations of \$191,929 and various other in-kind contributions totaling \$509,548.

Donated goods and services for the year ended December 31, 2011 include food donations of \$192,788 and various other in-kind contributions totaling \$288,613.

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, CDF IV LLC and FSMT LLC are not taxpaying entities for federal income tax purposes, and thus no income tax expense has been recorded in the financial statements. Income from FSP LLC, CDF IV LLC and FSMT LLC is taxed to the members in their respective tax returns. Differences between tax

# FareStart

Notes to Consolidated Financial Statements  
Years Ended December 31, 2012 and 2011

## NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

### Federal income taxes, continued

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, 2012 and 2011.

FareStart recognizes income tax related interest in interest expense and penalties in operating expenses. During the years ended December 31, 2012 and 2011, 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.

### 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, 2012 and 2011.

## NOTE 2 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through April 26, 2013, which is the date the financial statements were available to be issued.

## NOTE 3 – INVESTMENTS

The following schedule summarizes the Organization's investments stated at fair value as of December 31:

	<u>2012</u>	<u>2011</u>
Exchange traded funds	\$ 712,825	\$ 527,809
Money market funds	514,345	402,312
Mutual funds	<u>156,670</u>	<u>232,947</u>
	<u>\$ 1,383,839</u>	<u>\$ 1,163,068</u>

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

# FareStart

## Notes to Consolidated Financial Statements Years Ended December 31, 2012 and 2011

### NOTE 3 – INVESTMENTS, continued

Investment income consists of the following for the years ended December 31:

	<u>2012</u>	<u>2011</u>
Interest	\$ 98,682	\$ 91,196
Dividends	<u>17,035</u>	<u>8,327</u>
	<u>\$ 115,717</u>	<u>\$ 99,523</u>

Net realized and unrealized gains (losses) on investments are comprised of the following for the years ended December 31:

	<u>2012</u>	<u>2011</u>
Realized gain (loss) on investments	\$ 90	\$ 4,983
Realized gain (loss) on board restricted investments	842	-
Unrealized gain (loss) on investments	8,180	(6,091)
Unrealized gain (loss) on investments board restricted investments	<u>8,743</u>	<u>-</u>
	<u>\$ 17,855</u>	<u>\$ (1,108)</u>

### NOTE 4 - FAIR VALUE MEASUREMENTS

The Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under this topic are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that FareStart has the ability to access.

Level 2: Inputs to the valuation methodology include:

- a. Quoted prices for similar assets or liabilities in active markets,
- b. Quoted prices for identical or similar assets or liabilities in inactive markets,
- c. Inputs other than quoted prices that are observable for the asset or liability,
- d. Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.



## FareStart

Notes to Consolidated Financial Statements  
Years Ended December 31, 2012 and 2011

### NOTE 4 – FAIR VALUE MEASUREMENTS, continued

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value.

Investments in exchange traded funds, money market funds and mutual funds: Valued at the net asset value of shares held at year end, which is considered a Level 1 measurement.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while FareStart believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

### NOTE 5 – PROMISES TO GIVE

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

	<u>2012</u>	<u>2011</u>
Due in less than one year	\$ 25,000	\$ 27,124
Due in two to five years	<u>-</u>	<u>25,000</u>
	25,000	52,124
Less allowance for uncollectible amounts	(5,000)	(6,062)
Less discount to present value at 2 %	<u>(42)</u>	<u>(389)</u>
Total unconditional promises to give	<u>\$ 19,958</u>	<u>\$ 45,673</u>

At December 31, 2012 and 2011, 100% and 95%, of the unconditional promises to give were from one major donor, respectively.

### NOTE 6 – NOTE RECEIVABLE

As part of the financing agreement for the building renovation, FareStart agreed to loan up to \$10,218,141 to CDF IV, LLC. As of December 31, 2012 and 2011, FareStart had loaned \$0 and \$9,748,806, respectively. Under the terms of the agreement, the outstanding principal and any unpaid interest, at 1% per year, is due on March 31, 2036. The loan was forgiven in conjunction with the unwind of the New Markets Tax Credit project as described in footnote 10.

## FareStart

Notes to Consolidated Financial Statements  
Years Ended December 31, 2012 and 2011

### NOTE 7 – RESERVE ACCOUNTS AND BOARD DESIGNATIONS

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

	<u>2012</u>	<u>2011</u>
Restricted Cash		
Building related reserves and escrow deposits (FSP LLC)	\$ 64	\$ 476,890
Board designated building and equipment reserve (FareStart)	<u>218,899</u>	<u>218,809</u>
Total restricted cash	<u>218,963</u>	<u>695,699</u>
Restricted Investments (FareStart)		
Board designated investments	660,814	499,130
Building and equipment reserve	<u>309,378</u>	<u>264,038</u>
Total restricted investments	<u>970,192</u>	<u>763,168</u>
Total Restricted Cash and Investments	<u>\$ 1,189,155</u>	<u>\$ 1,458,867</u>

### NOTE 8 - LINE OF CREDIT

FareStart has a \$500,000 unsecured, revolving line of credit expiring on September 30, 2013. 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, 2012 and 2011.

### NOTE 9 – RELATED PARTY TRANSACTIONS

#### Building Transactions

FareStart purchased a 33,000 square foot building, formerly known as the Jersey Building, in July, 2004. The building was renovated and houses the main restaurant, training center and offices. This facility has a 6,000 square foot kitchen and accommodates twice the number of students of its prior facility. The 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 office space provides space for all FareStart staff to be housed in one building.

As part of the building financing, FareStart established FSP LLC. FareStart sold the building, land and building improvements to FSP LLC in March 2006 to facilitate the tax credit financing, which was unwound December 31, 2012, as described in footnote 10. FareStart received \$3,643,674 of cash from FSP LLC and an initial equity interest of \$925,000 in FSP LLC. FareStart entered into a development services agreement with FSP 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

FSMT LLC was established as part of the financing package. FSMT LLC has executed a lease agreement for the building from FSP LLC. FareStart has executed a sublease agreement to lease the property from FSMT LLC for \$132,384 per year. The sublease agreement terminates March 2013 and contains an option to renew the lease through March 2026.

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

## FareStart

Notes to Consolidated Financial Statements  
Years Ended December 31, 2012 and 2011

### NOTE 9 – RELATED PARTY TRANSACTIONS, continued

FareStart completed the renovation of the building and placed it in service on December 31, 2006. FareStart committed to loan up to \$10,218,141 as part of the tax credit financing transaction. In addition, FareStart 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, 2012 and 2011, respectively, FareStart received \$171,421 and \$199,115 in contributions from the members of the Board of Directors.

### NOTE 10 – NEW MARKETS TAX CREDIT PROJECT WIND-DOWN

As discussed in Note 1, FSP LLC generated federal historic tax credits as established by the Tax Reform Act of 1986, as amended. FSP LLC agreed to operate the property in accordance with the governing regulations under the New Markets Tax Credit Program and historic tax credit program. During 2012, the FSP LLC was notified by U.S. Bancorp Community Development Corporation (“USBCDC”) and Community Development Funding, LLC (“CBO”) that they would each be unilaterally exercising a “put” option contained in the original Project documents, whereby USBCDC and CBO would transfer, assign, sell, and convey their respective interest in CDF IV LLC to FareStart. Effective December 31, 2012, the following transactions occurred simultaneously:

- Through the exercise of the “put” option, Community Development Funding Sub-CDE IV, LLC and Community Development Funding Sub-CDE V, LLC assigned Note 2 and Note 3, as reflected in footnote 11, to CDF IV LLC (collectively, the “Note Transfers”).
- CDF IV LLC had two investor members, USBCDC and CBO, who through the exercise of the “put” option sold their interests in CDF IV LLC to FareStart for \$55,862 and \$100, respectively (collectively, the “Put Event”).
- FSP LLC returned capital of \$35,973 in reserve funds to FareStart for the “put” payment.
- FSMT LLC had one member, Community Development Funding Sub-CDE IV, LLC, who assigned its rights to FSMT LLC to CDF IV LLC in connection with the Note Transfers prior to the Put Event.
- Prior to the put event, a priority return of \$16,191 was paid to Community Development Funding Sub-CDE IV, LLC as the sole member thereof. This same amount had been paid in the prior year.
- FareStart made a capital contribution of \$205,000 to FSP LLC. These funds, combined with funds held in reserve accounts, were used to repay the \$600,000 note payable to Community Development Funding Sub-CDE IV, LLC, identified in footnote 11 below as Note 1.
- CDF IV LLC forgave the repayment of a \$10,460,190 note payable, identified in footnote 11 below as Note 2.
- CDF IV LLC forgave the repayment of a \$4,600,000 note payable, identified in footnote 11 below as Note 3.
- CDF IV LLC forgave the repayment of \$339,480 of interest due from FSP LLC.

## FareStart

### Notes to Consolidated Financial Statements Years Ended December 31, 2012 and 2011

#### NOTE 10 – NEW MARKETS TAX CREDIT PROJECT WIND-DOWN, continued

- FareStart forgave the repayment of notes and interest receivable of \$9,851,617 from CDF IV LLC as described in Note 6.

The result of the above transactions is that FareStart is the sole member of CDF IV LLC, which in turn is the sole member of FSMT LLC. As of December 31, 2012, the members of FSP LLC are FareStart and CDF IV LLC. Since FareStart is the sole member of CDF IV LLC, FSP LLC is considered a wholly-owned subsidiary of FareStart, and is therefore deemed to be a disregarded entity for federal income tax purposes.

#### NOTE 11 – NOTES PAYABLE

FareStart had the following notes payable as of December 31:

	2012	2011
<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 and was repaid on December 31, 2012.</p>	\$ -	\$ 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 and was forgiven on December 31, 2012.</p>	-	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 and was forgiven on December 31, 2012.</p>	-	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
Totals	\$ 97,359	\$ 15,757,549

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

## FareStart

### Notes to Consolidated Financial Statements Years Ended December 31, 2012 and 2011

#### NOTE 12 – LEASE COMMITMENTS

FareStart leases equipment under a non-cancelable operating lease agreement that terminates December 2015. Total monthly payments are \$568. Scheduled lease payments for the years ending December 31, are as follows:

2013	\$	6,816
2014		6,816
2015		<u>6,816</u>
	\$	<u>20,448</u>

FareStart leased equipment under a non-cancelable capital lease agreement that ended December 31, 2012. At December 31, 2012, the equipment had a total cost of \$19,314 and accumulated depreciation at of \$19,314. Total monthly payments in 2011 and 2012 are \$386 per month including interest of 9.5% per year.

FareStart leases its main office and branch locations pursuant to terms of various operating lease agreements. FareStart signed a sublease agreement to lease the building from FSMT LLC for \$132,384 per year. The sublease agreement terminates March 2013 and contains an option to renew the lease through March 2026. With the wind-down of the New Market Tax Credit project, resulting in the acquisition of FSMT by FareStart, management intends to keep the terms of the prior master lease in force.

Rent expense under these leases was \$132,384 and \$132,384 for the years ended December 31, 2012 and 2011, respectively, and is included in occupancy expense.

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

2013	\$	132,384
2014		132,384
2015		132,384
2016		132,384
2017		132,384
Thereafter		<u>1,323,840</u>
	\$	<u>1,985,760</u>

Through December 31, 2012, FareStart Properties, LLC was leasing the building to FSMT LLC. The lease was 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. This sub-lease was terminated with the wind-down of the New Market Tax Credit project as described in footnote 10.

## FareStart

### Notes to Consolidated Financial Statements Years Ended December 31, 2012 and 2011

#### NOTE 13 – ECONOMIC CONCENTRATIONS AND CONTINGENCIES

FareStart receives contract revenue from three government agencies which provided 26% and 25% of FareStart's unrestricted operating revenue for the years ended December 31, 2012 and 2011, 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, 2012 and 2011, no such adjustments were made.

One vendor supplied 40% and 43% of FareStart's food purchases which are included in cost of goods sold for both of the years ended December 31, 2012 and 2011.

FareStart invests primarily in exchange traded funds and money market funds, which may subject it to market risk.

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

The FSP 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 Markets Tax Credit and historic tax credit regulations during the compliance period.

#### NOTE 14 – SUMMARIZED CONSOLIDATING SCHEDULES FOR 2012

The consolidated financial statements include the accounts of FareStart and its subsidiaries, FSP LLC, CDF IV LLC, and FSMT LLC. Therefore the consolidated financial statements reflect the ongoing operating activities of FareStart as well as the operations of FSP LLC, CDF IV LLC, and FSMT LLC.

	FareStart	FareStart Properties, LLC	CDF IV Investment Fund, LLC	FareStart Master Tenant, LLC	Eliminating Entries	Consolidated Balances
Assets	<u>\$ 10,327,780</u>	<u>11,669,512</u>	<u>4,496</u>	<u>5,610,409</u>	<u>(14,845,383)</u>	<u>12,766,814</u>
Liabilities	\$ 694,464	2,209	-	-	(13,610)	683,063
Noncontrolling Interest	-	-	-	-	-	-
Net Assets	<u>9,633,316</u>	<u>11,667,303</u>	<u>4,496</u>	<u>5,610,409</u>	<u>(14,831,773)</u>	<u>12,083,751</u>
Total Net Assets and Liabilities	<u>\$ 10,327,780</u>	<u>11,669,512</u>	<u>4,496</u>	<u>5,610,409</u>	<u>(14,845,383)</u>	<u>12,766,814</u>

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

# FareStart

## Notes to Consolidated Financial Statements Years Ended December 31, 2012 and 2011

### NOTE 14 – SUMMARIZED CONSOLIDATING SCHEDULES FOR 2012, continued

As reflected in the schedule below, FareStart recorded a decrease in net assets of \$9,532,717, reflecting a loss on debt forgiveness of \$9,851,617 and expenses in excess of income and revenue of \$318,900. FSP LLC has recorded a net increase of \$14,187,110, due primarily to a gain from the forgiveness of debt of \$15,399,670 offset by building depreciation expense and mortgage interest expense related to the building. CDF IV LLC recorded a decrease in net assets of \$5,548,053 from the net effect of forgiving the debt of FSP and being forgiven of debt due to FareStart. FSMT LLC recorded an increase in net assets of \$7,237,845 reflecting its share of the debt forgiveness at FSP.

	FareStart	FareStart Properties, LLC	CDF IV Investment Fund, LLC	FareStart Master Tenant, LLC	Eliminating Entries	Consolidated Balances
Operating revenue	\$ 3,734,201	-	-	-	-	3,734,201
Cost of goods sold	1,149,810	-	-	-	-	1,149,810
Net Operating Revenue	<u>2,584,391</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,584,391</u>
Unrestricted Public Support and Other Revenue						
Grants, contracts and contributions	2,832,504	-	-	-	-	2,832,504
In-kind contributions - other	509,548	-	-	-	-	509,548
Special events, net of direct benefits to donors	929,996	-	-	-	-	929,996
Services and membership dues - Catalyst Kitchens	144,149	-	-	-	-	144,149
Interest income	115,717	-	-	-	-	115,717
Other revenue	62,185	95,810	-	-	(54,740)	103,255
Total Unrestricted Public Support and other revenue	<u>4,594,099</u>	<u>95,810</u>	<u>-</u>	<u>-</u>	<u>(54,740)</u>	<u>4,635,169</u>
Debt forgiveness from unwind of New Markets Tax Credit project	<u>(9,851,617)</u>	<u>15,399,670</u>	<u>(5,548,053)</u>	<u>7,237,845</u>	<u>(1,469,032)</u>	<u>5,768,813</u>
Total Unrestricted Support and Revenue	<u>(2,673,127)</u>	<u>15,495,480</u>	<u>(5,548,053)</u>	<u>7,237,845</u>	<u>(1,523,772)</u>	<u>12,988,373</u>
Expenses:						
Wages and related expenses	4,203,000	-	-	-	-	4,203,000
Restaurant and café operating expenses	378,166	6,706	-	-	-	384,872
Advertising	78,463	-	-	-	-	78,463
Bank charges, bad debt and other expenses	91,721	81	-	-	-	91,802
Board and staff development	58,620	-	-	-	-	58,620
Program materials and meetings	3,331	-	-	-	-	3,331
Complimentary meals	28,483	-	-	-	-	28,483
Insurance	59,870	-	-	-	-	59,870
Interest	-	223,451	-	-	-	223,451
Miscellaneous expense	74,838	-	-	-	-	74,838
New Markets Tax Credit unwind costs	127,533	-	-	-	-	127,533
Occupancy	463,100	-	-	-	-	463,100
Professional fees	492,693	65,459	-	-	(54,740)	503,412
Space rental	116,281	-	-	-	-	116,281
Student and staff meals	89,748	-	-	-	-	89,748
Student support	492,099	-	-	-	-	492,099
Supplies, postage and copies	239,477	-	-	-	-	239,477
Transportation	48,307	-	-	-	-	48,307
Depreciation and amortization	206,715	996,482	-	-	(93,073)	1,110,124
Total Expenses	<u>7,252,445</u>	<u>1,292,179</u>	<u>-</u>	<u>-</u>	<u>(147,813)</u>	<u>8,396,811</u>
Noncontrolling interest in FareStart Properties, LLC - priority return	-	(16,191)	-	-	-	(16,191)
Net realized and unrealized gain (loss) on investments	17,855	-	-	-	-	17,855
Restricted revenue	<u>375,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>375,000</u>
Total change in net assets	<u>\$ (9,532,717)</u>	<u>\$ 14,187,110</u>	<u>\$ (5,548,053)</u>	<u>\$ 7,237,845</u>	<u>\$ (1,375,959)</u>	<u>\$ 4,968,226</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, 2012

	<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	10/451-HUD	\$ 2,408
Pass-Through Program From Workforce Development Council of Seattle King County (WDC)	14.235	11/471-HUD	<u>335,796</u>
Total Supportive Housing Program			338,204
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	1112-35650	371,184 *
Supplemental Nutrition Assistance Program Pass-Through Program From Washington State Department of Social and Health Services - Basic Food Employment and Training	10.561	1212-60865	<u>164,948</u> *
Total Supplemental Nutrition Assistance Program			536,132
Department of Housing and Urban Development			
Community Food Projects	10.225	10-029-33800	<u>100,954</u>
Total Expenditures of Federal Awards			<u>\$ 1,072,649</u>

\* Denotes Major Program

**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, 2012. 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, 2012

#### 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, 2012.

**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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of FareStart (a nonprofit organization), which comprise the consolidated statements of financial position as of December 31, 2012, and the related consolidated statements of unrestricted activities, changes in net assets, statement of 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 April 26, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered FareStart's internal control over financial reporting (internal control) 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 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. 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 over financial reporting 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 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*.

**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*, continued**

**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 entity's internal control or on compliance. This report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Finney, Neill & Company, P.S.*

Seattle, Washington  
April 26, 2013

**Independent Auditor's 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

**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, 2012. 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, 2012.

**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, Hill & Company, P.S.*

Seattle, Washington  
April 26, 2013

**FARESTART**  
 Schedule of Findings and Questioned Costs  
 Year Ended December 31, 2012

**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>
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?   X   yes \_\_\_\_\_ no

**FARESTART**

Schedule of Findings and Questioned Costs, continued  
Year Ended December 31, 2012

**Section II – Financial Statement Findings**

**NONE**



**FARESTART**  
Schedule of Findings and Questioned Costs, continued  
Year Ended December 31, 2012

**Section III – Federal Award Findings and Questioned Costs**

**NONE**

**FARESTART**  
Summary Schedule of Prior Audit Findings  
Year Ended December 31, 2012

**NONE**