FARESTART

CONSOLIDATED FINANCIAL STATEMENTS

AND

FEDERAL SINGLE AUDIT REPORTS

DECEMBER 31, 2013 AND 2012

FARESTART
TABLE OF CONTENTS

FINNEY, NEILL & COMPANY, P.S.
CERTIFIED PUBLIC ACCOUNTANTS

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, 2013 and 2012, 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.

Auditors' 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.

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

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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, 2013 and 2012, 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 accompanying 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 23, 2014 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.

April 23, 2014
Seattle, Washington

FareStart

Consolidated Statements of Financial Position

December 31, 2013 and 2012

ASSETS	2013	2012
Current Assets		
Cash and cash equivalents	$ 1,614,246	$ 1,487,797
Accounts receivable, net	582,872	458,509
Investments, at fair value	417,111	413,647
Promises to give - current, net	1,810,881	297,462
Prepaid expenses	149,301	120,293
Inventory	44,610	46,292
Total Current Assets	4,619,021	2,824,000
Reserve accounts - board restricted	-	218,963
Investments, at fair value - board restricted	1,358,110	970,192
Property and equipment, net	8,432,622	8,753,659
	$ 14,409,753	$ 12,766,814

LIABILITIES AND NET ASSETS	2013	2012
Current Liabilities		
Accounts payable	$ 256,117	$ 189,415
Accrued expenses	272,043	283,790
Deferred revenue	91,616	112,499
Notes payable - current portion	-	97,359
Total Current Liabilities	619,776	683,063
Net Assets		
Unrestricted	11,747,374	11,646,152
Temporarily restricted	2,042,603	437,599
Total Net Assets	13,789,977	12,083,751
	$ 14,409,753	$ 12,766,814

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

FARESTART
Consolidated Statements of Unrestricted Activities
Years Ended December 31, 2013 and 2012

	2013	2012
Operating Revenue		
Food service revenue	$ 3,580,645	$ 3,251,593
Guest chef night	290,381	290,679
In-kind contributions - food	142,290	191,929
	4,013,316	3,734,201
Cost of goods sold	1,083,671	1,149,810
Net Operating Revenue	2,929,645	2,584,391
Unrestricted Public Support and Other Revenue		
Private grants	659,852	680,504
Public contracts	1,037,495	975,290
Contributions - operating	1,286,717	1,177,425
Contributions - capital projects	5,042	(715)
In-kind contributions - other	412,454	509,548
Special events, net of direct benefits to donors of $300,624 and $222,851	813,125	929,996
Services and membership dues - Catalyst Kitchens	128,836	144,149
Investment income	17,801	115,717
Other revenue (expense)	(10,927)	103,255
Total Unrestricted Public Support and other revenue	4,350,395	4,635,169
Debt forgiveness	97,359	5,768,813
Net Assets Released from Restrictions		
Satisfaction of purpose restrictions	364,257	412,779
Total Unrestricted Public Support, Revenue, and Other Support	7,741,656	13,401,152
Expenses		
Program services	5,244,542	5,149,670
Management and general:		
FareStart Operations	1,078,996	1,082,559
FareStart Properties, LLC	356,764	1,144,366
Fundraising	966,929	1,020,216
Total Expenses	7,647,231	8,396,811
Unrestricted revenue over (under) expenses	$ 94,425	$ 5,004,341

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

FareStart

Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2013 and 2012

	December 31, 2013		
	FareStart	Non-Controlling Interest	Total
Unrestricted Net Assets:			
Unrestricted revenue over (under) expenses	$ 94,425	$ -	$ 94,425
Net realized and unrealized gain (loss) on investments	6,797	-	6,797
Change in Unrestricted Net Assets	101,222	-	101,222
Temporarily Restricted Activities:			
Satisfaction of purpose restrictions	(364,257)	-	(364,257)
Contributions - restricted	1,965,000	-	1,965,000
Net realized and unrealized gain (loss) on investments	4,261	-	4,261
Change in Temporarily Restricted Net Assets	1,605,004	-	1,605,004
Total Changes in Net Assets	1,706,226	-	1,706,226
Net Assets - Beginning of year	12,083,751	-	12,083,751
Net Assets - End of year	$ 13,789,977	$ -	$ 13,789,977

	December 31, 2012		
	FareStart	Non-Controlling 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

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

FARESTART
Consolidated Statement of Functional Expenses
Year Ended December 31, 2013

	Food Service Training Program	Management and General: FareStart	Management and General: FareStart Properties, LLC	Total Management and General	Fundraising	Total All Services
Salaries and wages	$ 2,827,050	608,966	-	608,966	372,186	3,808,202
Payroll taxes and benefits	558,884	97,971	-	97,971	48,358	705,213
Total wages and related expenses	3,385,934	706,937	-	706,937	420,544	4,513,415
Restaurant and café operating expenses:						
Linen services	95,910	-	-	-	-	95,910
Paper supplies	54,440	-	-	-	-	54,440
Repairs and maintenance	38,558	131	-	131	93	38,782
Other	179,266	9,803	-	9,803	4,237	193,306
Total restaurant and café operating expenses	368,174	9,934	-	9,934	4,330	382,438
Advertising	-	-	-	-	75,106	75,106
Bad debt and other losses	-	2,866	-	2,866	-	2,866
Bank charges	55,734	12,474	-	12,474	34,507	102,715
Board and staff development	22,956	26,714	-	26,714	5,885	55,555
Complimentary meals	33,318	2,494	-	2,494	4,592	40,404
Insurance	57,373	4,450	-	4,450	3,349	65,172
Loss on sale of assets	705	51	-	51	-	756
Miscellaneous expense	13,521	13,083	-	13,083	27,694	54,298
New Markets Tax Credit unwind costs	-	30,774	-	30,774	-	30,774
Occupancy	318,437	30,737	-	30,737	17,246	366,420
Professional fees	117,066	177,010	7,287	184,297	143,932	445,295
Program materials and meetings	342	87	-	87	2,284	2,713
Space rental	25	-	-	-	91,637	91,662
Student and staff meals	65,571	5,066	-	5,066	3,570	74,207
Student support	489,446	42	-	42	-	489,488
Supplies, postage and copies	167,689	31,759	-	31,759	112,214	311,662
Transportation	37,996	110	-	110	10,380	48,486
Depreciation	110,255	24,408	349,477	373,885	9,659	493,799
Total expenses as shown on the Statements of Unrestricted Activities	5,244,542	1,078,996	356,764	1,435,760	966,929	7,647,231
Cost of goods sold:						
Food purchases	939,781	-	-	-	356	940,137
Supplies and other	1,244	-	-	-	-	1,244
In-kind donations of food	139,340	-	-	-	2,950	142,290
Total cost of goods sold	1,080,365	-	-	-	3,306	1,083,671
Total	$ 6,324,907	1,078,996	356,764	1,435,760	970,235	8,730,902

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

FARESTART

Consolidated Statement of Functional Expenses

Year Ended December 31, 2012

	Food Service Training Program	Management and General: FareStart	Management and General: FareStart Properties, LLC	Total Management and General	Fundraising	Total 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	**288**	-	-	**-**	**76,033**	**76,321**
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	**222,428**	80,132	10,719	**90,851**	**192,275**	**505,554**
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 Statements of Cash Flow
Years Ended December 31, 2013 and 2012

	2013	2012
Cash flows provided (used) in operating activities:		
Cash received from:		
Public contracts	$ 913,132	$ 994,566
Private grants	638,969	694,535
Donors	2,531,465	2,490,632
Sales to the public	3,871,026	3,542,272
Services and membership dues - Catalyst Kitchens	128,836	144,149
Interest and dividends	17,801	115,717
Other	(10,927)	103,255
Cash paid for:		
Personnel	(4,525,162)	(4,197,117)
Services and supplies	(3,123,491)	(3,533,522)
Interest	-	(154,541)
Net cash provided (used) in operating activities	441,649	199,946
Cash flows provided (used) in investing activities:		
Restricted escrow and reserve accounts	218,963	476,736
Payment for acquisition of CDF IV Investment Fund, LLC and FareStart Master Tenant, LLC, net of cash received	-	202,008
Purchase of investments	(380,324)	(202,916)
Purchases of property and equipment	(178,839)	(65,472)
Net cash provided (used) in investing activities	(340,200)	410,356
Cash flows provided (used) in financing activities:		
Capital campaign receipts	25,000	7,496
Noncontrolling interest return	-	(16,191)
Principal borrowing (payments) on notes payable	-	(600,000)
Net cash provided (used) in financing activities	25,000	(608,695)
Net increase (decrease) in cash	126,449	1,607
Cash and cash equivalents at beginning of year	1,487,797	1,486,190
Cash and cash equivalents at end of year	$ 1,614,246	$ 1,487,797

	2013	2012
Reconciliation of Changes in Net Assets to Net Cash Provided (Used) By Operating Activities:		
Changes in net assets	$ 1,706,226	$ 4,968,226
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Debt forgiveness	(97,359)	(5,768,813)
Depreciation and amortization	493,799	1,110,124
Discount on public support restricted based on time and activity	-	715
Disposal of fixed assets	6,077	-
Net realized and unrealized (gains) losses on investments	(11,058)	(17,855)
Noncontrolling interest priority return	-	16,191
Public support restricted based on time and activity	(1,538,419)	-
Decrease (increase) in:		
Accounts receivable	(124,363)	19,276
Prepaid expenses	(29,008)	(18,676)
Inventory	1,682	(6,104)
(Decrease) increase in:		
Accounts payable	66,702	(123,052)
Accrued expenses	(11,747)	5,883
Deferred revenue	(20,883)	14,031
Net cash provided (used) by operating activities	$ 441,649	$ 199,946

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

As described in footnote 9, 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.

As described in footnote 3 to the Schedule of Expenditures of Federal Awards, the $97,359 loan associated with the Community Development Block Grant was forgiven effective September 30, 2013.

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

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 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 9, 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. CDF IV LLC, and FSMT LLC were dissolved in 2013. 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.

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 $2,042,603 and $437,599 at December 31, 2013 and 2012, 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, 2013 and 2012.

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 and exchange traded 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, 2013 and 2012, the allowance for doubtful accounts was $16,163 and $14,102, 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.

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:

	2013	2012
Land	$ 2,442,204	$ 2,442,204
Building and improvements	6,945,092	6,919,382
Furniture, equipment and software	2,306,137	2,225,845
Vehicles	142,739	120,159
Construction in process	9,676	-
	11,845,848	11,707,590
Less accumulated depreciation	(3,413,226)	(2,953,931)
	$ 8,432,622	$ 8,753,659

Advertising expenses
Advertising is expensed as incurred. For the years ended December 31, 2013 and 2012, advertising expense was $75,106 and $76,321, 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, 2013 and 2012 was $0 and $553,559, 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.

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

Functional allocation of expenses,continued

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.

During December 2013, FareStart was notified that it was the recipient of an unconditional grant of $1,500,000 from a single donor to be used for Catalyst Kitchens. The funds will be received in 2014, and FareStart is obligated to re-grant $1,150,000 to Catalyst Kitchen member organizations. The grant amount is recorded in "Contributions – restricted" on the consolidated statements of changes in net assets.

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, 2013 include food donations of $142,290 and various other in-kind contributions totaling $412,454.

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.

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.

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

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 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, 2013 and 2012.

FareStart recognizes income tax related interest in interest expense and penalties in operating expenses. During the years ended December 31, 2013 and 2012, 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, 2013 and 2012.

NOTE 2 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through April 23, 2014, 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:

	2013	2012
Exchange traded funds	$ 1,060,056	$ 712,825
Money market funds	991	100,699
Mutual funds	714,174	570,315
	$ 1,775,221	$ 1,383,839

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

	2013	2012
Interest	$ 12	$ 98,682
Dividends	17,789	17,035
	$ 17,801	$ 115,717

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

	2013	2012
Realized gain (loss) on investments	$ 360	$ 90
Realized gain (loss) on board restricted investments	2,781	842
Unrealized gain (loss) on investments	6,920	8,180
Unrealized gain (loss) on investments board restricted investments	997	8,743
	$ 11,058	$ 17,855

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.

NOTE 4 - FAIR VALUE MEASUREMENTS, continued

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.

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 – CAPITAL CAMPAIGN

Unconditional promises to give related to the capital campaign, which are included on the balance sheet in "Promises to give" at December 31 are due as follows:

	2013	2012
Due in less than one year	$ -	$ 25,000
Less allowance for uncollectible amounts	-	(5,000)
Less discount to present value at 2 %	-	(42)
Total unconditional promises to give	$ -	$ 19,958

At December 31, 2012, 100% of the unconditional promises to give related to the capital campaign were from one major donor.

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

NOTE 6 – 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:

	2013	2012
Restricted Cash		
Building related reserves and escrow deposits (FSP LLC)	$ -	$ 64
Board designated building and equipment reserve (FareStart)	-	218,899
Total restricted cash	-	218,963
Restricted Investments (FareStart)		
Board designated investments	770,059	660,814
Building and equipment reserve	588,051	309,378
Total restricted investments	1,358,110	970,192
Total Restricted Cash and Investments	$ 1,358,110	$ 1,189,155

NOTE 7 - LINE OF CREDIT

FareStart has a $500,000 unsecured, revolving line of credit expiring on December 31, 2014. 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, 2013 and 2012.

NOTE 8 – 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 9. 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. FSMT LLC assigned the lease to FSP LLC in 2013 at the time FSMT LLC was dissolved. The sublease agreement terminates March 2038.

NOTE 8 – 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, 2013 and 2012, respectively, FareStart received $180,500 and $171,421 in contributions from the members of the Board of Directors.

NOTE 9 – NEW MARKETS TAX CREDIT PROJECT WIND-DOWN

As discussed in footnote 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 notes payable of $10,460,190 and $4,600,000, respectively, 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 a $600,000 note payable to Community Development Funding Sub-CDE IV, LLC.

- CDF IV LLC forgave the repayment of notes payable of $10,460,190 and $4,600,000.

- CDF IV LLC forgave the repayment of $339,480 of interest due from FSP LLC.

- FareStart forgave the repayment of notes and interest receivable of $9,851,617 from CDF IV LLC.

The result of the above transactions is that FareStart became the sole member of CDF IV LLC, which in turn became the sole member of FSMT LLC. As of December 31, 2012, the members of FSP LLC were FareStart and CDF IV LLC. In 2013, FSMT LLC and CDF IV LLC were dissolved.

NOTE 9 – NEW MARKETS TAX CREDIT PROJECT WIND-DOWN, continued

As a result, FSP LLC is considered a wholly-owned subsidiary of FareStart, and is therefore deemed to be a disregarded entity for federal income tax purposes.

The FSP LLC Agreement provided for various agreements between the managing member (FareStart) and the former investor member who was in place through the end of 2012. 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 provided 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 was subject to compliance requirements and agreed to operate the property in accordance with New Markets Tax Credit and historic tax credit regulations during the compliance period.

NOTE 10 – NOTES PAYABLE

FareStart had the following notes payable as of December 31:

	2013	2012
Community Development Block Grant pass-through from City of Seattle to finance the Jersey Building. The note is non-interest bearing and unsecured. As FareStart did not sell or use the property for an unauthorized purpose, the loan was forgiven on the maturity date of September 30, 2013.	$ -	$ 97,359

NOTE 11 – 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:

2014	$ 6,816
2015	6,816
	$ 13,632

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 2012 were $386 per month including interest of 9.5% per year.

FareStart leases its main office and branch location pursuant to terms of various operating lease agreements. FareStart leases its main office from FSP LLC for $132,384 per year. The agreement terminates March 2038.

Rent expense under these leases was $145,899 and $145,231 for the years ended December 31, 2013 and 2012, respectively, and is included in occupancy expense.

NOTE 11 – LEASE COMMITMENTS, continued

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

2014	$ 145,618
2015	132,384
2016	132,384
2017	132,384
2018	132,384
Thereafter	1,191,456
	$ 1,866,610

Through December 31, 2012, FareStart Properties, LLC was leasing the building to FSMT LLC. The lease was a triple net lease and had 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 9.

NOTE 12 – DEFINED CONTRIBUTION PLAN

Effective January 1, 2013, FareStart maintains a 401(k) plan for all eligible employees with a minimum of six months and 1,000 hours of service. The plan requires mandatory employer matching contributions equal to employees' contributions up to 4% of employee eligible compensation. FareStart contributed $22,952 to the plan in the year ended December 31, 2013.

NOTE 13 – ECONOMIC CONCENTRATIONS AND CONTINGENCIES

FareStart receives contract revenue from three government agencies which provided 26% and 26% of FareStart's unrestricted operating revenue for the years ended December 31, 2013 and 2012, 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, 2013 and 2012, no such adjustments were made.

One vendor supplied 50% and 40% of FareStart's food purchases which are included in cost of goods sold for both of the years ended December 31, 2013 and 2012.

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.

NOTE 14 – SUMMARIZED CONSOLIDATING SCHEDULES FOR 2013

The consolidated financial statements include the accounts of FareStart and its subsidiary, FSP LLC. 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	$ 4,967,632	11,946,928	(2,504,807)	14,409,753
Liabilities	$ 619,776	-	-	619,776
Noncontrolling Interest	-	-	-	-
Net Assets	4,347,856	11,946,928	(2,504,807)	13,789,977
Total Net Assets and Liabilities	$ 4,967,632	11,946,928	(2,504,807)	14,409,753

NOTE 14 – SUMMARIZED CONSOLIDATING SCHEDULES FOR 2013, continued

As reflected in the schedule below, FareStart recorded an increase in consolidated net assets of $1,706,226, reflecting revenue in excess of expenses at FareStart of $1,985,040, and a net decrease of $278,814 at FSP LLC, due primarily to building depreciation expense.

	FareStart	FareStart Properties, LLC	Eliminating Entries	Consolidated Balances
Operating revenue	$ 4,013,316	-	-	4,013,316
Cost of goods sold	1,083,671	-	-	1,083,671
Net Operating Revenue	2,929,645	-	-	2,929,645
Unrestricted Public Support and Other Revenue				
Grants, contracts and contributions	2,989,106	-	-	2,989,106
In-kind contributions - other	412,454	-	-	412,454
Special events, net of direct benefits to donors	813,125	-	-	813,125
Services and membership dues - Catalyst Kitchens	128,836	-	-	128,836
Interest income	17,801	-	-	17,801
Other revenue	43,507	132,384	(186,818)	(10,927)
Total Unrestricted Public Support and other revenue	4,404,829	132,384	(186,818)	4,350,395
Debt forgiveness	97,359	-	-	97,359
Total Unrestricted Support and Revenue	7,431,833	132,384	(186,818)	7,377,399
Expenses:				
Wages and related expenses	4,513,415	-	-	4,513,415
Restaurant and café operating expenses	382,438	-	-	382,438
Advertising	75,106	-	-	75,106
Bank charges, bad debt and other expenses	105,581	-	-	105,581
Board and staff development	55,555	-	-	55,555
Complimentary meals	40,404	-	-	40,404
Insurance	65,172	-	-	65,172
Loss on sale of assets	756	-	-	756
Miscellaneous expense	54,298	-	-	54,298
New Markets Tax Credit unwind costs	30,774	-	-	30,774
Occupancy	498,804	-	(132,384)	366,420
Professional fees	438,008	61,721	(54,434)	445,295
Program materials and meetings	2,713	-	-	2,713
Space rental	91,662	-	-	91,662
Student and staff meals	74,207	-	-	74,207
Student support	489,488	-	-	489,488
Supplies, postage and copies	311,662	-	-	311,662
Transportation	48,486	-	-	48,486
Depreciation and amortization	144,322	349,477	-	493,799
Total Expenses	7,422,851	411,198	(186,818)	7,647,231
Net realized and unrealized gain (loss) on investments	11,058	-	-	11,058
Restricted revenue	1,965,000	-	-	1,965,000
Total change in net assets	$ 1,985,040	(278,814)	-	1,706,226

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, 2013

	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	
Department of Housing and Urban Development:				
Supportive Housing Program				
Pass-Through Program From Workforce Development Council of Seattle King County (WDC)	14.235	11/471-HUD	$ 4,204	
Pass-Through Program From Workforce Development Council of Seattle King County (WDC)	14.235	12/475-HUD	353,069	
Total Supportive Housing Program			357,273	
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 Adminstrative 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	1212-60865	431,015	*
Supplemental Nutrition Assistance Program				
Pass-Through Program From Washington State Department of Social and Health Services - Basic Food Employment and Training	10.561	1312-88290	173,185	*
Total Supplemental Nutrition Assistance Program			604,200	
Department of Housing and Urban Development				
Community Food Projects	10.225	10-029-33800	76,022	
Total Expenditures of Federal Awards			$ 1,134,854	

* 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, 2013. 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.

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 – DEBT FORGIVENESS

FareStart's Community Development Block Grant forgivable loan (CFDA 14.218) was forgiven in full effective September 30, 2013. The outstanding balance of the loan as of December 31, 2013 is $0.

FINNEY, NEILL & COMPANY, P.S.
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' 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, 2013, 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 23, 2014.

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*.

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Independent Auditors' 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.

April 23, 2014
Seattle, Washington

Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133

To the Board of Directors
FareStart

Report on Compliance for Each Major Federal Program

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, 2013. FareStart's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of FareStart's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of FareStart's compliance.

Opinion on Each Major Federal Program

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, 2013.

Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133, continued

Report on Internal Control Over Compliance

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Finney, Neill & Company, P.S.

April 23, 2014
Seattle, Washington

FareStart

Schedule of Findings and Questioned Costs

Year Ended December 31, 2013

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' 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 auditors' 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:

CFDA Numbers	Name of Federal Program
10.561	Department of Agriculture Supplemental Nutrition Assistance Program
14.218	Community Development Block Grant

Dollar threshold used to distinguish between type A and type B programs:	$300,000	
Auditee qualifies as low-risk auditee?	X yes	____ no

Section II – Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

None

Section IV – Summary Schedule of Prior Audit Findings

NONE