

FARESTART
CONSOLIDATED FINANCIAL STATEMENTS
AND
FEDERAL SINGLE AUDIT REPORTS
DECEMBER 31, 2014 AND 2013

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, 2014 and 2013, and the related consolidated statements of unrestricted activities, changes in net assets, statements of functional expenses, and cash flows for the years then ended, and the related notes to the consolidated 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.

INDEPENDENT AUDITORS' REPORT, CONTINUED

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, 2014 and 2013, 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 May 22, 2015 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, Hill & Company, P.S.

May 22, 2015
Seattle, Washington

FARESTART
Consolidated Statements of Financial Position
December 31, 2014 and 2013

| <u>ASSETS</u> | <u>2014</u> | <u>2013</u> |
|---|----------------------|----------------------|
| Current Assets | | |
| Cash and cash equivalents | \$ 1,901,885 | \$ 1,614,246 |
| Accounts receivable, net | 674,318 | 582,872 |
| Investments, at fair value | 421,136 | 417,111 |
| Promises to give - current, net | 392,470 | 1,810,881 |
| Prepaid expenses | 198,474 | 149,301 |
| Inventory | <u>46,392</u> | <u>44,610</u> |
| Total Current Assets | 3,634,675 | 4,619,021 |
| Investments, at fair value - board restricted | 1,471,805 | 1,358,110 |
| Property and equipment, net | <u>9,730,418</u> | <u>8,432,622</u> |
| | <u>\$ 14,836,898</u> | <u>\$ 14,409,753</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| Current Liabilities | | |
| Accounts payable | \$ 221,606 | \$ 256,117 |
| Accrued expenses | 340,078 | 272,043 |
| Deferred revenue | <u>144,762</u> | <u>91,616</u> |
| Total Current Liabilities | 706,446 | 619,776 |
| Deferred rent liability | <u>11,077</u> | <u>-</u> |
| Total Liabilities | 717,523 | 619,776 |
| Net Assets | | |
| Unrestricted | 12,932,604 | 11,761,219 |
| Temporarily restricted | <u>1,186,771</u> | <u>2,028,758</u> |
| Total Net Assets | <u>14,119,375</u> | <u>13,789,977</u> |
| | <u>\$ 14,836,898</u> | <u>\$ 14,409,753</u> |

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

FARESTART
Consolidated Statements of Unrestricted Activities
Years Ended December 31, 2014 and 2013

| | <u>2014</u> | <u>2013</u> |
|--|---------------------|------------------|
| Operating Revenue | | |
| Food service revenue | \$ 4,015,609 | \$ 3,871,026 |
| In-kind contributions - food | <u>214,328</u> | <u>142,290</u> |
| | 4,229,937 | 4,013,316 |
| Cost of goods sold | <u>1,145,828</u> | <u>1,083,671</u> |
| Net Operating Revenue | <u>3,084,109</u> | <u>2,929,645</u> |
| Unrestricted Public Support and Other Revenue | | |
| Private grants | 1,236,095 | 659,852 |
| Public contracts | 1,072,929 | 1,037,495 |
| Contributions - operating | 1,554,637 | 1,286,717 |
| Contributions - capital projects | - | 5,042 |
| In-kind contributions - other | 430,915 | 412,454 |
| Special events, net of direct benefits to donors of \$262,078 and \$264,610 | 922,716 | 813,125 |
| Services and membership dues - Catalyst Kitchens | 167,799 | 128,836 |
| Investment income | 25,349 | 17,801 |
| Other revenue (expense) | <u>8,690</u> | <u>(10,927)</u> |
| Total Unrestricted Public Support and other revenue | 5,419,130 | 4,350,395 |
| Debt forgiveness | - | 97,359 |
| Net Assets Released from Restrictions | | |
| Satisfaction of purpose restrictions | <u>2,191,987</u> | <u>364,257</u> |
| Total Unrestricted Public Support, Revenue, and Other Support | <u>10,695,226</u> | <u>7,741,656</u> |
| Expenses | | |
| Program services | 6,737,056 | 5,244,542 |
| Management and general: | | |
| FareStart Operations | 1,272,378 | 1,078,996 |
| FareStart Properties, LLC | 172,676 | 356,764 |
| Fundraising | <u>1,334,341</u> | <u>966,929</u> |
| Total Expenses | <u>9,516,451</u> | <u>7,647,231</u> |
| Unrestricted revenue over (under) expenses | <u>\$ 1,178,775</u> | <u>\$ 94,425</u> |

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

FARESTART
Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2014 and 2013

| | 2014 | 2013 |
|---|---------------|---------------|
| Unrestricted Net Assets: | | |
| Unrestricted revenue over (under) expenses | \$ 1,178,775 | \$ 94,425 |
| Changes in net realized and unrealized gain (loss) on investments | (7,390) | 11,058 |
| Change in Unrestricted Net Assets | 1,171,385 | 105,483 |
| Temporarily Restricted Activities: | | |
| Satisfaction of purpose restrictions | (2,191,987) | (364,257) |
| Contributions - restricted | 1,350,000 | 1,965,000 |
| Change in Temporarily Restricted Net Assets | (841,987) | 1,600,743 |
| Total Changes in Net Assets | 329,398 | 1,706,226 |
| Net Assets - Beginning of year | 13,789,977 | 12,083,751 |
| Net Assets - End of year | \$ 14,119,375 | \$ 13,789,977 |

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

FARESTART
Consolidated Statement of Functional Expenses
Year Ended December 31, 2014

| | Food Service Training Program | Management and General | | Total Management and General | Fundraising | Total All Services |
|---|--|-------------------------------|-----------------|---|--------------------|-----------------------------------|
| | | FareStart | | | | |
| | | FareStart | Properties, LLC | | | |
| Salaries and wages | \$ 3,081,569 | 779,925 | - | 779,925 | 523,325 | \$ 4,384,819 |
| Payroll taxes and benefits | 668,590 | 132,945 | - | 132,945 | 76,187 | 877,722 |
| Total wages and related expenses | 3,750,159 | 912,870 | - | 912,870 | 599,512 | 5,262,541 |
| Restaurant and café operating expenses: | | | | | | |
| Linen services | 106,429 | - | - | - | - | 106,429 |
| Paper supplies | 52,143 | - | - | - | - | 52,143 |
| Repairs and maintenance | 34,166 | 572 | - | 572 | 371 | 35,109 |
| Other | 218,402 | 4,572 | - | 4,572 | 6,595 | 229,569 |
| Total restaurant and café operating expenses | 411,140 | 5,144 | - | 5,144 | 6,966 | 423,250 |
| Advertising | - | - | - | - | 85,160 | 85,160 |
| Bad debt and other losses | - | 18,730 | - | 18,730 | - | 18,730 |
| Bank charges | 61,023 | 9,247 | - | 9,247 | 36,532 | 106,802 |
| Board and staff development | 48,701 | 45,385 | - | 45,385 | 12,362 | 106,448 |
| Complimentary meals | 40,796 | 3,737 | - | 3,737 | 4,821 | 49,354 |
| Insurance | 60,463 | 4,867 | - | 4,867 | 4,022 | 69,352 |
| Loss on sale of assets | - | 407 | - | 407 | - | 407 |
| Miscellaneous expense | 68,501 | 22,834 | - | 22,834 | 53,253 | 144,588 |
| Occupancy | 408,121 | 35,863 | - | 35,863 | 27,364 | 471,348 |
| Professional fees | 69,222 | 156,203 | - | 156,203 | 317,681 | 543,106 |
| Program materials and meetings | 2,419 | (3) | - | (3) | 6,071 | 8,487 |
| Re-grant expense | 865,101 | - | - | - | - | 865,101 |
| Space rental | 6,750 | - | - | - | 75,134 | 81,884 |
| Startup expenses - Pacific Tower | 32,267 | 4,869 | - | 4,869 | 4,126 | 41,262 |
| Student and staff meals | 61,214 | 4,460 | - | 4,460 | 3,750 | 69,424 |
| Student support | 518,415 | - | - | - | 21 | 518,436 |
| Supplies, postage and copies | 141,326 | 32,630 | - | 32,630 | 88,711 | 262,667 |
| Transportation | 49,354 | 3,182 | - | 3,182 | 4,995 | 57,531 |
| Depreciation | 142,084 | 11,953 | 172,676 | 184,629 | 3,860 | 330,573 |
| Total expenses as shown on the Statements of Unrestricted Activities | 6,737,056 | 1,272,378 | 172,676 | 1,445,054 | 1,334,341 | 9,516,451 |
| Cost of goods sold: | | | | | | |
| Food purchases | 931,371 | - | - | - | - | 931,371 |
| Supplies and other | 128 | - | - | - | - | 128 |
| In-kind donations of food | 141,281 | - | - | - | 73,048 | 214,329 |
| Total cost of goods sold | 1,072,780 | - | - | - | 73,048 | 1,145,828 |
| Total | \$ 7,809,836 | 1,272,378 | 172,676 | 1,445,054 | 1,407,389 | \$ 10,662,279 |

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 | | Total Management and General | Fundraising | Total All Services |
|---|--|-------------------------------|------------------------------|---|--------------------|-----------------------------------|
| | | FareStart | FareStart Properties, LLC | General | | |
| | | | | | | |
| 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 and amortization | 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 Statements of Cash Flow
Years Ended December 31, 2014 and 2013

| | 2014 | 2013 |
|---|--------------|--------------|
| Cash flows provided (used) in operating activities: | | |
| Cash received from: | | |
| Public contracts | \$ 981,483 | \$ 913,132 |
| Private grants | 1,289,241 | 638,969 |
| Donors | 5,245,764 | 2,531,465 |
| Sales to the public | 4,015,609 | 3,871,026 |
| Services and membership dues - Catalyst Kitchens | 167,799 | 128,836 |
| Interest and dividends | 25,349 | 17,801 |
| Other | 8,690 | (10,927) |
| Cash paid for: | | |
| Personnel | (5,194,506) | (4,525,162) |
| Services and supplies | (4,498,311) | (3,123,491) |
| Net cash provided (used) in operating activities | 2,041,118 | 441,649 |
| Cash flows provided (used) in investing activities: | | |
| Restricted escrow and reserve accounts | - | 218,963 |
| Purchase of investments | (125,110) | (380,324) |
| Purchases of property and equipment | (1,628,369) | (178,839) |
| Net cash provided (used) in investing activities | (1,753,479) | (340,200) |
| Cash flows provided (used) in financing activities: | | |
| Capital campaign receipts | - | 25,000 |
| Net cash provided (used) in financing activities | - | 25,000 |
| Net increase (decrease) in cash | 287,639 | 126,449 |
| Cash and cash equivalents at beginning of year | 1,614,246 | 1,487,797 |
| Cash and cash equivalents at end of year | \$ 1,901,885 | \$ 1,614,246 |

Reconciliation of Changes in Net Assets to Net Cash
Provided (Used) By Operating Activities:

| | | |
|---|--------------|--------------|
| Changes in net assets | \$ 329,398 | \$ 1,706,226 |
| Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities: | | |
| Debt forgiveness | - | (97,359) |
| Depreciation | 330,573 | 493,799 |
| Disposal of fixed assets | - | 6,077 |
| Net realized and unrealized (gains) losses on investments | 7,390 | (11,058) |
| Public support restricted based on time and activity | 1,418,411 | (1,538,419) |
| Decrease (increase) in: | | |
| Accounts receivable | (91,446) | (124,363) |
| Prepaid expenses | (49,173) | (29,008) |
| Inventory | (1,782) | 1,682 |
| (Decrease) increase in: | | |
| Accounts payable | (34,511) | 66,702 |
| Accrued expenses | 68,035 | (11,747) |
| Deferred rent | 11,077 | - |
| Deferred revenue | 53,146 | (20,883) |
| Net cash provided (used) by operating activities | \$ 2,041,118 | \$ 441,649 |

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

FareStart's Community Development Block Grant forgivable loan of \$97,359 was forgiven in full effective September 30, 2013.

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

FARESTART

Notes to Consolidated Financial Statements
Years Ended December 31, 2014 and 2013

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Founded in 1992, FareStart provides a community that transforms lives by empowering homeless and disadvantaged men, women, and families to achieve self-sufficiency through life skills, job training and employment in the food service industry. The FareStart adult program is an intensive training program combining hands-on food-service training with classroom instruction, individual case management and job placement services. This program prepares homeless and disadvantaged men and women for jobs in the restaurant and hospitality industry and helps them find and keep those jobs. Students in the adult program prepare over 2,800 meals daily. Meals are sold through the FareStart Restaurant, Café@2100, and through a contact meals program benefitting shelters, schools and day care centers. These businesses account for almost half of FareStart revenue. Additionally, FareStart operates two rental venues—the Restaurant at 700 Virginia and event space at Pacific Tower—with onsite and offsite catering. In 2015, two additional food service venues located at Pacific Tower will be added to FareStart’s retail mix.

Similar to the core Adult Program, FareStart, in partnership with YouthCare, offers an eight-week Barista Training and Education Program that provides job training and placement, life skills, employment counseling, classroom, and on-the-job training for the competitive espresso industry for youth ages 16-24. This program provides early intervention in the lives of disengaged youth, reconnecting them with their families, educational opportunities and job skills to prevent future homelessness.

FareStart financed the construction of a 33,000 square foot facility (the Restaurant at 700 Virginia Street) in 2006. This \$12.8 million project was paid for with a successful \$8.5 million capital campaign, New Markets Tax Credit funding, historic tax credits and state funding. Purchasing this facility allowed FareStart to grow its businesses and to more than double the number of students it serves annually. The addition of space at Pacific Tower (retail venues, special event space, catering and commercial kitchen) will further expand FareStart’s training programs and retail sales in 2015.

FareStart has long served as a model of food service social enterprise and in 2011 expanded its reach into the national arena with the launch of Catalyst Kitchens. Catalyst Kitchens is a collaborative network of organizations with a shared vision to empower lives through job training, self-generated revenue through social enterprise, and nourish bodies and minds through quality foodservice. In 2014, Catalyst Kitchens grew to more than 67 members in the U.S., Canada and Europe.

Principles of consolidation

The consolidated financial statements include the accounts of FareStart and its subsidiary, FareStart Properties, LLC (FSP LLC). 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, continued Years Ended December 31, 2014 and 2013

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 \$1,186,771 and \$2,028,758 at December 31, 2014 and 2013, 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, 2014 and 2013.

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, and 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, 2014 and 2013, the allowance for doubtful accounts was \$25,114 and \$16,163, 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, continued
Years Ended December 31, 2014 and 2013

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 accounting principles generally accepted in the United States of America 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>2014</u> | <u>2013</u> |
|-----------------------------------|---------------------|---------------------|
| Land | \$ 2,442,204 | \$ 2,442,204 |
| Building and improvements | 8,168,003 | 6,945,092 |
| Furniture, equipment and software | 2,560,944 | 2,306,137 |
| Vehicles | 179,894 | 142,739 |
| Construction in process | <u>30,000</u> | <u>9,676</u> |
| | 13,381,045 | 11,845,848 |
| Less accumulated depreciation | <u>(3,650,627)</u> | <u>(3,413,226)</u> |
| | <u>\$ 9,730,418</u> | <u>\$ 8,432,622</u> |

Advertising expenses

Advertising is expensed as incurred. For the years ended December 31, 2014 and 2013, advertising expense was \$85,160 and \$75,106, 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.

FARESTART

Notes to Consolidated Financial Statements, continued
Years Ended December 31, 2014 and 2013

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 were received in 2014, and FareStart is obligated to re-grant \$1,150,000 to Catalyst Kitchen member organizations. FareStart re-granted \$865,101 to Catalyst Kitchen member organizations in 2014. The grant amount is recorded in "Contributions – restricted" on the consolidated statements of changes in net assets. The re-granted funds are recorded in "Re-grant expense" on the consolidated statement of functional expenses.

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, 2014 include food donations of \$214,328 and various other in-kind contributions totaling \$430,915.

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.

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.

FARESTART

Notes to Consolidated Financial Statements, continued
Years Ended December 31, 2014 and 2013

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 is not a taxpaying entity for federal income tax purposes, and thus no income tax expense has been recorded in the consolidated financial statements. Income from FSP LLC is taxed to the member in its respective tax return. 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, 2014 and 2013.

FareStart recognizes income tax related interest in interest expense and penalties in operating expenses. During the years ended December 31, 2014 and 2013, FareStart recognized no income tax related interest or penalties.

Reclassifications

Certain balances in the prior year consolidated financial statements have been reclassified for comparative purposes to conform to the presentation in the current year consolidated 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, 2014 and 2013.

NOTE 2 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through May 22, 2015, which is the date the consolidated financial statements were available to be issued.

FARESTART

Notes to Consolidated Financial Statements, continued
Years Ended December 31, 2014 and 2013

NOTE 3 – INVESTMENTS

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

| | <u>2014</u> | <u>2013</u> |
|-----------------------|---------------------|---------------------|
| Exchange traded funds | \$ 774,175 | \$ 1,060,056 |
| Money market funds | 99,777 | 991 |
| Mutual funds | <u>1,018,989</u> | <u>714,174</u> |
| | <u>\$ 1,892,941</u> | <u>\$ 1,775,221</u> |

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

| | <u>2014</u> | <u>2013</u> |
|-----------|------------------|------------------|
| Interest | \$ 239 | \$ 12 |
| Dividends | <u>25,110</u> | <u>17,789</u> |
| | <u>\$ 25,349</u> | <u>\$ 17,801</u> |

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

| | <u>2014</u> | <u>2013</u> |
|---------------------------------------|-------------------|------------------|
| Realized gain (loss) on investments | \$ 1,675 | \$ 3,141 |
| Unrealized gain (loss) on investments | <u>(9,065)</u> | <u>7,917</u> |
| | <u>\$ (7,390)</u> | <u>\$ 11,058</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.

FARESTART

Notes to Consolidated Financial Statements, continued
Years Ended December 31, 2014 and 2013

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 – 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>2014</u> | <u>2013</u> |
|--------------------------------|---------------------|---------------------|
| Restricted investments | | |
| Board designated investments | \$ 874,222 | \$ 770,059 |
| Building and equipment reserve | 597,583 | 588,051 |
| Total restricted investments | <u>\$ 1,471,805</u> | <u>\$ 1,358,110</u> |

NOTE 6 - LINE OF CREDIT

FareStart has a \$500,000 unsecured, revolving line of credit expiring on December 31, 2015. 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, 2014 and 2013.

FARESTART

Notes to Consolidated Financial Statements, continued Years Ended December 31, 2014 and 2013

NOTE 7 – RELATED PARTY TRANSACTIONS

Board of Director Contributions

During the years ended December 31, 2014 and 2013, respectively, FareStart received \$254,188 and \$180,500 in contributions from the members of the Board of Directors.

NOTE 8 – 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 year ending December 31, are as follows:

| | |
|------|-----------------|
| 2015 | \$ <u>6,816</u> |
|------|-----------------|

FareStart leases its main office and branch locations 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.

In 2014, FareStart executed a lease for a new contract kitchen. The lease term is five years beginning September 1, 2014 and includes the option to renew for two five year periods beyond the initial lease term.

Rent expense under these leases was \$191,037 and \$145,899 for the years ended December 31, 2014 and 2013, respectively, and is included in occupancy expense.

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

| | |
|------------|---------------------|
| 2015 | \$ 267,763 |
| 2016 | 284,541 |
| 2017 | 288,879 |
| 2018 | 279,322 |
| 2019 | 356,015 |
| Thereafter | <u>2,548,392</u> |
| | \$ <u>4,024,912</u> |

FARESTART

Notes to Consolidated Financial Statements, continued
Years Ended December 31, 2014 and 2013

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31:

| | <u>2014</u> | <u>2013</u> |
|--------------------------------|---------------------|---------------------|
| Purpose restricted gifts: | | |
| Catalyst Kitchens | \$ 828,437 | \$ 1,872,924 |
| Professional development | 50,000 | 50,000 |
| Corrections grant - AT&T | 233,334 | - |
| Youth Barista program | 50,000 | - |
| New contract kitchen | - | 105,000 |
| | <hr/> | <hr/> |
| Total purpose restricted gifts | 1,161,771 | 2,027,924 |
| Time restricted gifts | 25,000 | 834 |
| | <hr/> | <hr/> |
| | <u>\$ 1,186,771</u> | <u>\$ 2,028,758</u> |

NOTE 10 – 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 \$98,119 and \$22,952 to the plan in the years ended December 31, 2014 and 2013, respectively.

NOTE 11 – ECONOMIC CONCENTRATIONS AND CONTINGENCIES

FareStart receives contract revenue from two government agencies which provided 21% and 26% of FareStart's unrestricted operating revenue for the years ended December 31, 2014 and 2013, 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, 2014 and 2013, no such adjustments were made.

An individual granting organization provided 55% and 76% of restricted contributions in each of the years ended December 31, 2014 and 2013, respectively.

One vendor supplied 56% and 50% of FareStart's food purchases which are included in cost of goods sold for both of the years ended December 31, 2014 and 2013.

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.

FARESTARTNotes to Consolidated Financial Statements, continued
Years Ended December 31, 2014 and 2013NOTE 12 – SUMMARIZED CONSOLIDATING SCHEDULES FOR 2014

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.

| | <u>FareStart</u> | <u>FareStart Properties, LLC</u> | <u>Eliminating Entries</u> | <u>Consolidated Balances</u> |
|----------------------------------|------------------|--------------------------------------|--------------------------------|----------------------------------|
| Assets | \$ 5,489,502 | 11,852,203 | (2,504,807) | 14,836,898 |
| Liabilities | \$ 717,523 | - | - | 717,523 |
| Net Assets | 4,771,979 | 11,852,203 | (2,504,807) | 14,119,375 |
| Total Net Assets and Liabilities | \$ 5,489,502 | 11,852,203 | (2,504,807) | 14,836,898 |

FARESTART

Notes to Consolidated Financial Statements, continued Years Ended December 31, 2014 and 2013

NOTE 12 – SUMMARIZED CONSOLIDATING SCHEDULES FOR 2014, continued

As reflected in the schedule below, FareStart recorded an increase in consolidated net assets of \$329,398, reflecting revenue in excess of expenses at FareStart of \$424,124, and a net decrease of \$94,726 at FSP LLC, due primarily to building depreciation expense.

| | FareStart | FareStart Properties, LLC | Eliminating Entries | Consolidated Balances |
|--|-------------------|------------------------------|------------------------|--------------------------|
| Operating revenue | \$ 4,229,937 | - | - | \$ 4,229,937 |
| Cost of goods sold | 1,145,828 | - | - | 1,145,828 |
| Net Operating Revenue | <u>3,084,109</u> | <u>-</u> | <u>-</u> | <u>3,084,109</u> |
| Unrestricted Public Support and Other Revenue | | | | |
| Grants, contracts and contributions | 3,863,661 | - | - | 3,863,661 |
| In-kind contributions - other | 430,915 | - | - | 430,915 |
| Special events, net of direct benefits to donors | 922,716 | - | - | 922,716 |
| Services and membership dues - Catalyst Kitchens | 167,799 | - | - | 167,799 |
| Interest income | 25,349 | - | - | 25,349 |
| Other revenue | 63,124 | 132,384 | (186,818) | 8,690 |
| Total Unrestricted Public Support and other revenue | <u>5,473,564</u> | <u>132,384</u> | <u>(186,818)</u> | <u>5,419,130</u> |
| Total Unrestricted Support and Revenue | <u>8,557,673</u> | <u>132,384</u> | <u>(186,818)</u> | <u>8,503,239</u> |
| Expenses: | | | | |
| Wages and related expenses | 5,262,541 | - | - | 5,262,541 |
| Restaurant and café operating expenses | 423,250 | - | - | 423,250 |
| Advertising | 85,160 | - | - | 85,160 |
| Bank charges, bad debt and other expenses | 125,532 | - | - | 125,532 |
| Board and staff development | 106,448 | - | - | 106,448 |
| Complimentary meals | 49,354 | - | - | 49,354 |
| Insurance | 69,352 | - | - | 69,352 |
| Loss on sale of assets | 407 | - | - | 407 |
| Miscellaneous expense | 144,588 | - | - | 144,588 |
| Occupancy | 603,732 | - | (132,384) | 471,348 |
| Professional fees | 543,106 | 54,434 | (54,434) | 543,106 |
| Program materials and meetings | 8,487 | - | - | 8,487 |
| Re-grant expense | 865,101 | - | - | 865,101 |
| Space rental | 81,884 | - | - | 81,884 |
| Startup expenses - Pacific Tower | 41,262 | - | - | 41,262 |
| Student and staff meals | 69,424 | - | - | 69,424 |
| Student support | 518,436 | - | - | 518,436 |
| Supplies, postage and copies | 262,667 | - | - | 262,667 |
| Transportation | 57,531 | - | - | 57,531 |
| Depreciation and amortization | 157,897 | 172,676 | - | 330,573 |
| Total Expenses | <u>9,476,159</u> | <u>227,110</u> | <u>(186,818)</u> | <u>9,516,451</u> |
| Net realized and unrealized gain (loss) on investments | (7,390) | - | - | (7,390) |
| Restricted revenue | <u>1,350,000</u> | <u>-</u> | <u>-</u> | <u>1,350,000</u> |
| Total change in net assets | <u>\$ 424,124</u> | <u>(94,726)</u> | <u>-</u> | <u>\$ 329,398</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, 2014

| | <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 | 12/475-HUD | \$ 29,400 |
| Total Supportive Housing Program | | | <u>29,400</u> |
| Continuum of Care Program | | | |
| Pass-Through Program From Workforce | | | |
| Development Council of Seattle King County (WDC) | 14.267 | 13/481-HUD | 340,883 * |
| Total Continuum of Care | | | <u>340,883</u> |
| Department of Agriculture: | | | |
| Food and Nutrition Service | | | |
| 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 | 1312-88290 | 505,733 * |
| Supplemental Nutrition Assistance Program | | | |
| Pass-Through Program From Washington | | | |
| State Department of Social and Health | | | |
| Services - Basic Food Employment and Training | 10.561 | 1412-24451 | 196,913 * |
| Total Supplemental Nutrition Assistance Program | | | <u>702,646</u> |
| Total Expenditures of Federal Awards | | | <u>\$ 1,072,929</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, 2014. 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, 2014

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.

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, 2014, 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 consolidated financial statements, and have issued our report thereon dated May 22, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated 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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of FareStart's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of FareStart's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. 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*.

**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, Hill & Company, P.S.

May 22, 2015
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, 2014. 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, 2014.

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, Hill & Company, P.S.

May 22, 2015
Seattle, Washington

FARESTART
 Schedule of Findings and Questioned Costs
 Year Ended December 31, 2014

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued Unmodified
 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 Unmodified

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 |
| 14.267 | Continuum of Care 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, 2014

Section II – Financial Statement Findings

NONE

FARESTART
Schedule of Findings and Questioned Costs, continued
Year Ended December 31, 2014

Section III – Federal Award Findings and Questioned Costs

NONE

FARESTART
Schedule of Findings and Questioned Costs, continued
Year Ended December 31, 2014

Section IV – Summary Schedule of Prior Audit Findings

NONE