

FARESTART
CONSOLIDATED FINANCIAL STATEMENTS
AND
FEDERAL SINGLE AUDIT REPORTS
DECEMBER 31, 2016 AND 2015

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, 2016 and 2015, and the related consolidated statements of activities, 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, 2016 and 2015, 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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 24, 2017 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.

April 24, 2017
Seattle, Washington

FARESTART
Consolidated Statements of Financial Position
December 31, 2016 and 2015

<u>ASSETS</u>	<u>2016</u>	<u>2015</u>
Current Assets		
Cash and cash equivalents	\$ 1,714,377	\$ 1,132,593
Accounts receivable, net	589,654	752,684
Investments, at fair value	-	426,909
Promises to give - current, net	389,601	603,590
Prepaid expenses	280,636	286,705
Inventory	<u>70,894</u>	<u>62,998</u>
Total Current Assets	3,045,162	3,265,479
Investments, at fair value - board restricted	1,640,968	1,607,892
Promises to give - long-term	25,000	-
Property and equipment, net	<u>9,686,118</u>	<u>10,465,106</u>
	<u>\$ 14,397,248</u>	<u>\$ 15,338,477</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Current Liabilities		
Accounts payable	\$ 564,425	\$ 390,762
Accrued payroll expenses	474,052	408,461
Deferred revenue	<u>136,386</u>	<u>137,092</u>
Total Current Liabilities	1,174,863	936,315
Deferred rent liability	<u>32,299</u>	<u>34,452</u>
Total Liabilities	1,207,162	970,767
Net Assets		
Unrestricted	12,915,586	13,991,040
Temporarily restricted	<u>274,500</u>	<u>376,670</u>
Total Net Assets	<u>13,190,086</u>	<u>14,367,710</u>
	<u>\$ 14,397,248</u>	<u>\$ 15,338,477</u>

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

FARESTART
Consolidated Statement of Activities
Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Operating Revenue			
Food service revenue	\$ 5,957,465	-	\$ 5,957,465
In-kind contributions - food	<u>167,623</u>	<u>-</u>	<u>167,623</u>
	6,125,088	-	6,125,088
Cost of goods sold	<u>1,373,400</u>	<u>-</u>	<u>1,373,400</u>
Net Operating Revenue	<u>4,751,688</u>	<u>-</u>	<u>4,751,688</u>
Public Support and Other Revenue			
Private grants	1,267,124	232,000	1,499,124
Public contracts	1,566,300	-	1,566,300
Contributions - operating	1,658,154	-	1,658,154
In-kind contributions - other	470,522	-	470,522
Special events, net of direct benefits to donors of \$333,397	1,174,103	-	1,174,103
Services and membership dues - Catalyst Kitchens	300,965	-	300,965
Investment income	27,241	-	27,241
Other revenue (expense)	<u>7,944</u>	<u>-</u>	<u>7,944</u>
Total Public Support and Other Revenue	6,472,353	232,000	6,704,353
Net Assets Released from Restrictions			
Satisfaction of purpose restrictions	<u>334,170</u>	<u>(334,170)</u>	<u>-</u>
Total Public Support, Revenue, and Other Support	<u>11,558,211</u>	<u>(102,170)</u>	<u>11,456,041</u>
Expenses			
Program services	9,213,514	-	9,213,514
Management and general			
FareStart Operations	1,651,601	-	1,651,601
FareStart Properties, LLC	193,410	-	193,410
Fundraising	<u>1,584,249</u>	<u>-</u>	<u>1,584,249</u>
Total Expenses	<u>12,642,774</u>	<u>-</u>	<u>12,642,774</u>
Revenue over (under) expenses	(1,084,563)	(102,170)	(1,186,733)
Net realized and unrealized gains (losses) on investments	<u>9,109</u>	<u>-</u>	<u>9,109</u>
Change in Net Assets	(1,075,454)	(102,170)	(1,177,624)
Net Assets, beginning of year	<u>13,991,040</u>	<u>376,670</u>	<u>14,367,710</u>
Net Assets, end of year	<u>\$ 12,915,586</u>	<u>274,500</u>	<u>\$ 13,190,086</u>

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

FARESTART
Consolidated Statement of Activities
Year Ended December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Operating Revenue			
Food service revenue	\$ 5,043,322	-	\$ 5,043,322
In-kind contributions - food	<u>139,999</u>	<u>-</u>	<u>139,999</u>
	5,183,321	-	5,183,321
Cost of goods sold	<u>1,337,763</u>	<u>-</u>	<u>1,337,763</u>
Net Operating Revenue	<u>3,845,558</u>	<u>-</u>	<u>3,845,558</u>
Public Support and Other Revenue			
Private grants	1,533,068	660,000	2,193,068
Public contracts	1,289,786	-	1,289,786
Contributions - operating	1,480,664	-	1,480,664
In-kind contributions - other	1,323,405	-	1,323,405
Special events, net of direct benefits to donors of \$290,896	992,457	-	992,457
Services and membership dues - Catalyst Kitchens	220,151	-	220,151
Investment income	27,949	-	27,949
Other revenue (expense)	<u>14,377</u>	<u>-</u>	<u>14,377</u>
Total Public Support and Other Revenue	6,881,857	660,000	7,541,857
Net Assets Released from Restrictions			
Satisfaction of purpose restrictions	<u>1,470,101</u>	<u>(1,470,101)</u>	<u>-</u>
Total Public Support, Revenue, and Other Support	<u>12,197,516</u>	<u>(810,101)</u>	<u>11,387,415</u>
Expenses			
Program services	7,703,942	-	7,703,942
Management and general			
FareStart Operations	1,477,843	-	1,477,843
FareStart Properties, LLC	196,056	-	196,056
Fundraising	<u>1,752,093</u>	<u>-</u>	<u>1,752,093</u>
Total Expenses	<u>11,129,934</u>	<u>-</u>	<u>11,129,934</u>
Revenue over (under) expenses	1,067,582	(810,101)	257,481
Net realized and unrealized gains (losses) on investments	<u>(9,146)</u>	<u>-</u>	<u>(9,146)</u>
Change in Net Assets	1,058,436	(810,101)	248,335
Net Assets, beginning of year	<u>12,932,604</u>	<u>1,186,771</u>	<u>14,119,375</u>
Net Assets, end of year	<u>\$ 13,991,040</u>	<u>376,670</u>	<u>\$ 14,367,710</u>

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

FARESTART
Consolidated Statement of Functional Expenses
Year Ended December 31, 2016

	Food Service Training Program	Management and General		Total Management and General	Fundraising	Total All Services
		FareStart	FareStart Properties, LLC			
Salaries and wages	\$ 4,319,942	875,994	-	875,994	876,199	\$ 6,072,135
Payroll taxes and benefits	<u>909,870</u>	<u>173,074</u>	<u>-</u>	<u>173,074</u>	<u>146,166</u>	<u>1,229,110</u>
Total wages and related expenses	5,229,812	1,049,068	-	1,049,068	1,022,365	7,301,245
Restaurant and café operating expenses:						
Linen services	133,593	-	-	-	-	133,593
Paper supplies	79,599	-	-	-	-	79,599
Repairs and maintenance	44,545	364	-	364	364	45,273
Other	<u>300,051</u>	<u>7,533</u>	<u>-</u>	<u>7,533</u>	<u>48,083</u>	<u>355,667</u>
Total restaurant and café operating expenses	557,788	7,897	-	7,897	48,447	614,132
Advertising	110,654	-	-	-	11,077	121,731
Bad debt and other losses	27,305	-	-	-	9,040	36,345
Bank charges	92,719	17,230	60	17,290	41,088	151,097
Board and staff development	64,847	23,461	-	23,461	9,552	97,860
Complimentary meals	-	1,922	-	1,922	5,373	7,295
Insurance	69,218	5,822	-	5,822	5,822	80,862
Miscellaneous expense	99,611	40,270	-	40,270	52,165	192,046
Occupancy	596,903	52,666	20,795	73,461	52,217	722,581
Professional fees	661,262	390,093	-	390,093	128,439	1,179,794
Program materials and meetings	2,066	81	-	81	4,390	6,537
Space rental	111,724	-	-	-	90,636	202,360
Student and staff meals	84,970	6,505	-	6,505	6,471	97,946
Student support	712,645	-	-	-	-	712,645
Supplies, postage and copies	187,129	10,763	-	10,763	52,793	250,685
Transportation	53,003	5,139	-	5,139	3,690	61,832
Depreciation	<u>551,858</u>	<u>40,684</u>	<u>172,555</u>	<u>213,239</u>	<u>40,684</u>	<u>805,781</u>
Total expenses as shown on the Statement of Activities	<u>9,213,514</u>	1,651,601	193,410	<u>1,845,011</u>	<u>1,584,249</u>	<u>12,642,774</u>
Cost of goods sold:						
Food purchases	1,211,908	-	-	-	-	1,211,908
Supplies and other	600	-	-	-	-	600
In-kind donations of food	<u>153,886</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,006</u>	<u>160,892</u>
Total cost of goods sold	<u>1,366,394</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,006</u>	<u>1,373,400</u>
Total	\$ 10,579,908	1,651,601	193,410	1,845,011	1,591,255	\$ 14,016,174

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

FARESTART
Consolidated Statement of Functional Expenses
Year Ended December 31, 2015

	Food Service Training Program	Management and General		Total Management and General	Fundraising	Total All Services
		FareStart	FareStart Properties, LLC			
Salaries and wages	\$ 3,583,070	878,168	-	878,168	643,513	\$ 5,104,751
Payroll taxes and benefits	<u>749,156</u>	<u>161,318</u>	<u>-</u>	<u>161,318</u>	<u>88,967</u>	<u>999,441</u>
Total wages and related expenses	4,332,226	1,039,486	-	1,039,486	732,480	6,104,192
Restaurant and café operating expenses:						
Linen services	114,168	-	-	-	-	114,168
Paper supplies	69,117	-	-	-	-	69,117
Repairs and maintenance	24,034	313	-	313	198	24,545
Other	<u>302,678</u>	<u>7,859</u>	<u>-</u>	<u>7,859</u>	<u>14,895</u>	<u>325,432</u>
Total restaurant and café operating expenses	509,997	8,172	-	8,172	15,093	533,262
Advertising	8,432	-	-	-	59,937	68,369
Bad debt and other losses	17,810	-	-	-	9,441	27,251
Bank charges	71,357	15,406	30	15,436	32,709	119,502
Board and staff development	47,500	40,127	-	40,127	9,751	97,378
Complimentary meals	-	2,981	-	2,981	5,110	8,091
Insurance	68,447	6,861	-	6,861	4,752	80,060
Miscellaneous expense	104,195	39,355	-	39,355	46,603	190,153
Occupancy	614,847	65,374	23,471	88,845	45,591	749,283
Professional fees	237,709	229,835	-	229,835	298,866	766,410
Program materials and meetings	2,045	172	-	172	6,947	9,164
Re-grant expense	284,900	-	-	-	282,000	566,900
Space rental	50,475	-	-	-	70,771	121,246
Startup expenses - Pacific Tower	18,473	-	-	-	18,473	36,946
Student and staff meals	60,690	5,386	-	5,386	3,813	69,889
Student support	594,947	20	-	20	-	594,967
Supplies, postage and copies	163,186	18,659	-	18,659	74,349	256,194
Transportation	37,872	7,949	-	7,949	4,351	50,172
Depreciation	<u>478,834</u>	<u>(1,940)</u>	<u>172,555</u>	<u>170,615</u>	<u>31,056</u>	<u>680,505</u>
Total expenses as shown on the Statement of Activities	<u>7,703,942</u>	<u>1,477,843</u>	<u>196,056</u>	<u>1,673,899</u>	<u>1,752,093</u>	<u>11,129,934</u>
Cost of goods sold:						
Food purchases	1,197,105	-	-	-	-	1,197,105
Supplies and other	658	-	-	-	-	658
In-kind donations of food	<u>138,398</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,602</u>	<u>140,000</u>
Total cost of goods sold	<u>1,336,161</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,602</u>	<u>1,337,763</u>
Total	<u>\$ 9,040,103</u>	<u>1,477,843</u>	<u>196,056</u>	<u>1,673,899</u>	<u>1,753,695</u>	<u>\$ 12,467,697</u>

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

FARESTART

Notes to Consolidated Financial Statements, continued Years Ended December 31, 2016 and 2015

	2016	2015
Cash flows provided (used) in operating activities:		
Cash received from:		
Public contracts	\$ 1,729,330	\$ 1,211,420
Private grants	1,266,418	1,525,398
Donors	3,253,246	2,922,001
Sales to the public	5,957,465	5,043,322
Services and membership dues - Catalyst Kitchens	300,965	220,151
Interest and dividends	27,241	27,949
Other	7,944	14,377
Cash paid for:		
Personnel	(7,235,654)	(6,035,809)
Services and supplies	(5,101,320)	(4,131,902)
Net cash provided (used) in operating activities	205,635	796,907
Cash flows provided (used) in investing activities:		
Sale of investments	430,159	-
Purchases of investments	(27,217)	(151,006)
Purchases of property and equipment	(26,793)	(1,415,193)
Net cash provided (used) in investing activities	376,149	(1,566,199)
Net increase (decrease) in cash	581,784	(769,292)
Cash and cash equivalents at beginning of year	1,132,593	1,901,885
Cash and cash equivalents at end of year	\$ 1,714,377	\$ 1,132,593
Reconciliation of Changes in Net Assets to Net Cash Provided (Used) By Operating Activities:		
Changes in net assets	\$ (1,177,624)	\$ 248,335
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	805,781	680,505
Net realized and unrealized (gains) losses on investments	(9,109)	9,146
Public support restricted based on time and activity	188,989	(211,120)
Decrease (increase) in:		
Accounts receivable	163,030	(78,366)
Prepaid expenses	6,069	(88,231)
Inventory	(7,896)	(16,606)
(Decrease) increase in:		
Accounts payable	173,663	169,156
Accrued expenses	65,591	68,383
Deferred rent	(2,153)	23,375
Deferred revenue	(706)	(7,670)
Net cash provided (used) by operating activities	\$ 205,635	\$ 796,907

FARESTART

Notes to Consolidated Financial Statements, continued
Years Ended December 31, 2016 and 2015

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 3,000 meals daily. Meals are sold through the FareStart Restaurant, Café@2100, and through a contract 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, an additional food service venue located at Pacific Tower was added to FareStart’s retail mix and in 2016, a second Pacific Tower location opened.

Similar to the core Adult Program, FareStart, in collaboration 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’s Youth Culinary & Customer Service Training Program, a collaboration with Seattle Public Schools Interagency Academy, helps students advance skills and earn high school credits while they are engaged in on-the-job training. The program is geared toward youth age 16 to 21 and includes 8 weeks of training. The program helps youth advance toward a future of self-sustainability by advancing their education, obtaining a part time job or internship and gaining personal development skills.

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) further expanded 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 global 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 2016, Catalyst Kitchens had 65 members in the U.S., Canada and Europe.

Principles of consolidation

The consolidated financial statements include the accounts of FareStart and its wholly owned subsidiary, FareStart Properties, LLC (FSP LLC). All material intercompany transactions between the entities have been eliminated.

FARESTART

Notes to Consolidated Financial Statements, continued
Years Ended December 31, 2016 and 2015

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of presentation

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

- Unrestricted net assets are available without restriction for support of FareStart's operations.
- Temporarily restricted net assets are restricted by the donor to be used for certain purposes or future periods and consisted of \$274,500 and \$376,670 at December 31, 2016 and 2015, 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, 2016 and 2015.

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, 2016 and 2015, the allowance for doubtful accounts was \$66,525 and \$40,942, respectively.

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

FARESTART

Notes to Consolidated Financial Statements, continued
Years Ended December 31, 2016 and 2015

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

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. No allowance was recorded as of December 31, 2016 and 2015. Promises to give – long-term are due within three years.

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>2016</u>	<u>2015</u>
Land	\$ 2,442,204	\$ 2,442,204
Building and improvements	8,173,343	8,146,550
Furniture, equipment and software	3,926,532	3,926,531
Vehicles	<u>266,970</u>	<u>266,970</u>
	14,809,049	14,782,255
Less accumulated depreciation	<u>(5,122,931)</u>	<u>(4,317,149)</u>
	<u>\$ 9,686,118</u>	<u>\$ 10,465,106</u>

Advertising expenses

Advertising is expensed as incurred. For the years ended December 31, 2016 and 2015, advertising expense was \$121,731 and \$68,369, respectively.

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

FARESTART

Notes to Consolidated Financial Statements, continued
Years Ended December 31, 2016 and 2015

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

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 activities and of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services.

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

Restricted and unrestricted support

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

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

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 was obligated to re-grant \$1,150,000 to Catalyst Kitchen member organizations. FareStart re-granted \$0 and \$566,900 to Catalyst Kitchen member organizations in 2016 and 2015, respectively. 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, 2016 include food donations of \$167,623 and various other in-kind contributions totaling \$470,522.

Donated goods and services for the year ended December 31, 2015 include food donations of \$139,999 and various other in-kind contributions totaling \$1,323,405, including a three-year software grant from Microsoft with a value of \$753,363.

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

FARESTART

Notes to Consolidated Financial Statements, continued
Years Ended December 31, 2016 and 2015

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

Donated goods and services, continued

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

Federal income taxes

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

FSP LLC is not a taxpaying entity for federal income tax purposes, and thus no income tax expense has been recorded in the 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, 2016 and 2015.

FareStart recognizes income tax related interest in interest expense and penalties in operating expenses. During the years ended December 31, 2016 and 2015, FareStart recognized no income tax related interest or penalties.

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, 2016 and 2015.

FARESTART

Notes to Consolidated Financial Statements, continued Years Ended December 31, 2016 and 2015

NOTE 2 – SUBSEQUENT EVENTS

In January 2017, FareStart executed a lease for 25,000 square feet of retail dining and catering space which will also serve to provide a new hands-on foodservice apprenticeship program to assist foodservice workers who have experienced barriers to employment. These five new eateries will be comprised of a coffee shop, three fast-casual lunch options, catering service and a full-service restaurant and bar. The tenant-improvement necessary to open these locations has been donated to FareStart.

Additionally, a three-year revolving line of credit facility will be opened by FareStart to provide necessary working capital to hire, train and build out necessary internal systems to enable this growth.

Subsequent events have been evaluated through April 24, 2017, which is the date the consolidated financial statements were available to be issued.

NOTE 3 – INVESTMENTS

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

	<u>2016</u>	<u>2015</u>
Exchange traded funds	\$ 1,326,284	\$ 1,301,846
Money market funds	24	24
Mutual funds	314,660	732,931
	<u>\$ 1,640,968</u>	<u>\$ 2,034,801</u>

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

	<u>2016</u>	<u>2015</u>
Interest	\$ -	\$ 44
Dividends	27,241	27,905
	<u>\$ 27,241</u>	<u>\$ 27,949</u>

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

	<u>2016</u>	<u>2015</u>
Realized gain (loss) on investments	\$ -	\$ 198
Unrealized gain (loss) on investments	9,109	(9,344)
	<u>\$ 9,109</u>	<u>\$ (9,146)</u>

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

FARESTART

Notes to Consolidated Financial Statements, continued
Years Ended December 31, 2016 and 2015

NOTE 4 - FAIR VALUE MEASUREMENTS

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

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

Level 2: Inputs to the valuation methodology include:

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

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

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

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>2016</u>	<u>2015</u>
Restricted investments		
Board designated investments	\$ 1,024,648	\$ 1,004,174
Building and equipment reserve	616,320	603,718
Total restricted investments	<u>\$ 1,640,968</u>	<u>\$ 1,607,892</u>

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

FARESTART

Notes to Consolidated Financial Statements, continued
Years Ended December 31, 2016 and 2015

NOTE 6 - LINE OF CREDIT

FareStart has a \$1,000,000 unsecured line of credit expiring on December 31, 2017. 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, 2016 and 2015. The line of credit was renewed on December 31, 2016.

NOTE 7 – RELATED PARTY TRANSACTIONS

Board of Director Contributions

During the years ended December 31, 2016 and 2015, respectively, FareStart received \$237,592 and \$273,603 in contributions from the members of the Board of Directors.

NOTE 8 – LEASE COMMITMENTS

FareStart leases equipment under non-cancelable operating lease agreements that terminate between 2018 and 2020. Total monthly payments are \$1,815. Scheduled lease payments for the years ending December 31, are as follows:

2017	\$	21,780
2018		20,973
2019		18,552
2020		2,906
2021		-
Thereafter		-
	\$	<u>64,211</u>

Rent expense under these equipment leases was \$31,174 and \$25,545 for the years ended December 31, 2016 and 2015, respectively, and is included in supplies, postage and copies expense.

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 facility leases was \$282,386 and \$282,230 for the years ended December 31, 2016 and 2015, respectively, and is included in occupancy expense.

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

FARESTART

Notes to Consolidated Financial Statements, continued
Years Ended December 31, 2016 and 2015

NOTE 8 – LEASE COMMITMENTS, continued

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

2017	\$	288,879
2018		279,322
2019		232,266
2020		132,384
2021		132,384
Thereafter		<u>2,250,528</u>
	\$	<u>3,315,763</u>

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2016</u>	<u>2015</u>
Purpose restricted gifts:		
Catalyst Kitchens	\$ -	\$ 193,337
Professional development	50,000	50,000
Corrections grant - AT&T	33,333	133,333
Youth culinary	<u>151,167</u>	<u>-</u>
Total purpose restricted gifts	234,500	376,670
Time restricted gifts	<u>40,000</u>	<u>-</u>
	<u>\$ 274,500</u>	<u>\$ 376,670</u>

NOTE 10 – DEFINED CONTRIBUTION RETIREMENT 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 \$125,995 and \$111,671 to the plan in the years ended December 31, 2016 and 2015, respectively.

NOTE 11 – ECONOMIC CONCENTRATIONS AND CONTINGENCIES

FareStart receives contract revenue from one government agency which provided 11% and 8% of FareStart's unrestricted operating revenue for the years ended December 31, 2016 and 2015, 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, 2016 and 2015, no such adjustments were made.

An individual granting organization provided 83% and 55% of restricted contributions in each of the years ended December 31, 2016 and 2015, respectively.

One customer composed 23% and 25% of accounts receivable as of December 31, 2016 and 2015. One donor composed 51% and 70% of promises to give as of December 31, 2016 and 2015.

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

FARESTART
Notes to Consolidated Financial Statements, continued
Years Ended December 31, 2016 and 2015

NOTE 11 – ECONOMIC CONCENTRATIONS AND CONTINGENCIES, continued

One vendor supplied 49% and 51% of FareStart’s food purchases which are included in cost of goods sold for both of the years ended December 31, 2016 and 2015.

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 two other locations in Seattle, Washington. Future operations could be affected by changes in economic or other conditions in that geographical area.

NOTE 12 – SUMMARIZED CONSOLIDATING SCHEDULES FOR 2016

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	<u>\$ 5,281,970</u>	<u>7,897,177</u>	<u>1,218,101</u>	<u>\$ 14,397,248</u>
Liabilities	\$ 1,205,720	1,442	-	\$ 1,207,162
Net Assets	<u>4,076,250</u>	<u>7,895,735</u>	<u>1,218,101</u>	<u>13,190,086</u>
Total Net Assets and Liabilities	<u>\$ 5,281,970</u>	<u>7,897,177</u>	<u>1,218,101</u>	<u>\$ 14,397,248</u>

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

FARESTART

Notes to Consolidated Financial Statements, continued Years Ended December 31, 2016 and 2015

NOTE 12 – SUMMARIZED CONSOLIDATING SCHEDULES FOR 2016, continued

As reflected in the schedule below, FareStart recorded an increase in consolidated net assets of \$1,177,624, reflecting expenses in excess of revenues at FareStart of \$1,062,166, and a net decrease of \$115,458 at FSP LLC, due primarily to building depreciation expense.

	FareStart	FareStart Properties, LLC	Eliminating Entries	Consolidated Balances
Operating revenue	\$ 6,125,088	-	-	\$ 6,125,088
Cost of goods sold	1,373,400	-	-	1,373,400
Net Operating Revenue	<u>4,751,688</u>	<u>-</u>	<u>-</u>	<u>4,751,688</u>
Unrestricted Public Support and Other Revenue				
Grants, contracts and contributions	4,491,578	-	-	4,491,578
In-kind contributions - other	470,522	-	-	470,522
Special events, net of direct benefits to donors	1,174,103	-	-	1,174,103
Services and membership dues - Catalyst Kitchens	300,965	-	-	300,965
Interest income	27,241	-	-	27,241
Other revenue	62,376	132,384	(186,816)	7,944
Total Unrestricted Public Support and other revenue	<u>6,526,785</u>	<u>132,384</u>	<u>(186,816)</u>	<u>6,472,353</u>
Total Unrestricted Support and Revenue	<u>11,278,473</u>	<u>132,384</u>	<u>(186,816)</u>	<u>11,224,041</u>
Expenses:				
Wages and related expenses	7,301,245	-	-	7,301,245
Restaurant and café operating expenses	614,132	-	-	614,132
Advertising	121,731	-	-	121,731
Bank charges, bad debt and other expenses	187,382	60	-	187,442
Board and staff development	97,860	-	-	97,860
Complimentary meals	7,295	-	-	7,295
Insurance	80,862	-	-	80,862
Miscellaneous expense	192,046	-	-	192,046
Occupancy	834,170	20,795	(132,384)	722,581
Professional fees	1,179,794	54,432	(54,432)	1,179,794
Program materials and meetings	6,537	-	-	6,537
Space rental	202,360	-	-	202,360
Student and staff meals	97,946	-	-	97,946
Student support	712,645	-	-	712,645
Supplies, postage and copies	250,685	-	-	250,685
Transportation	61,832	-	-	61,832
Depreciation and amortization	633,226	172,555	-	805,781
Total Expenses	<u>12,581,748</u>	<u>247,842</u>	<u>(186,816)</u>	<u>12,642,774</u>
Net realized and unrealized gains (losses) on investments	9,109	-	-	9,109
Restricted revenue	232,000	-	-	232,000
Total change in net assets	<u>\$ (1,062,166)</u>	<u>(115,458)</u>	<u>-</u>	<u>\$ (1,177,624)</u>

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

Supplementary Financial Information

FARESTART
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2016

	Federal CFDA Number	Pass-Through Entity Identifying Number	Pass-Through Awards of Federal Expenditures
Department of Housing and Urban Development:			
Office of Community Planning and Development			
Continuum of Care Program			
Pass-Through Program From Workforce			
Development Council of Seattle King County (WDC)	14.267	14/485-HUD	\$ 10,833
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	1512-49909	964,392 *
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	1612-74812	334,788 *
Subtotal Supplemental Nutrition Assistance Program/Cluster			1,299,180
Food and Nutrition Service			
Pilot Projects to Reduce Dependency and Increase			
Work Requirements and Work Effort under SNAP			
Pass-Through Program From Washington			
State Department of Social and Health			
Services - Employment (RISE) Project	10.596	1512-50125	84,348
Pilot Projects to Reduce Dependency and Increase			
Work Requirements and Work Effort under SNAP			
Pass-Through Program From Washington			
State Department of Social and Health			
Services - Employment (RISE) Project	10.596	1612-76236	22,029
Subtotal Pilot Projects to Reduce Dependency and Increase			106,377
Work Requirements and Work Effort under SNAP			106,377
Subtotal Department of Agriculture			1,405,557
Corporation for National and Community Service			
Social Innovation Fund			
Pass-Through Program From REDF	94.019	03-FST-01	149,910
Total Expenditures of Federal Awards			\$ 1,566,300

* Denotes Major Program

FARESTART
Schedule of Expenditures of Federal Awards, continued
Year Ended December 31, 2016

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, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of 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 the Uniform Guidance, 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 – INDIRECT COSTS

FareStart has elected to use the 10% de minimis indirect cost rate.

**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, 2016, and the related consolidated statements of activities, 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 April 24, 2017.

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.

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 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.

April 24, 2017
Seattle, Washington

**Independent Auditors' Report on Compliance for Each Major Program and on
Internal Control over Compliance Required by the Uniform Guidance**

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 Compliance Supplement* that could have a direct and material effect on each of FareStart's major federal programs for the year ended December 31, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 types of 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, 2016.

Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance, 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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Finney, Hill & Company, P.S.

April 24, 2017
Seattle, Washington

FARESTART
 Schedule of Findings and Questioned Costs
 Year Ended December 31, 2016

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 the
 Uniform Guidance? _____ yes X no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program</u>
10.561	Department of Agriculture Supplemental Nutrition Assistance Program

Dollar threshold used to distinguish between
 type A and type B programs: \$750,000

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

FARESTART
Schedule of Findings and Questioned Costs, continued
Year Ended December 31, 2016

Section II – Financial Statement Findings

NONE

FARESTART
Schedule of Findings and Questioned Costs, continued
Year Ended December 31, 2016

Section III – Federal Award Findings and Questioned Costs

NONE

FARESTART
Schedule of Findings and Questioned Costs, continued
Year Ended December 31, 2016

Section IV – Summary Schedule of Prior Audit Findings

NONE