FARESTART

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

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

INDEPENDENT AUDITORS' REPORT

Board of Directors
FareStart

Report on the Audit of the Financial Statements

Opinion

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, 2023 and 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of FareStart as of December 31, 2023 and 2022, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of FareStart and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 16 to the consolidated financial statements, the Organization expects to incur start-up costs in the process of re-launching its social enterprise activities as it transitions away from the large scale hunger relief program activities that were funded by governmental COVID-19 pandemic relief grants. Management has identified capital sources as disclosed in Note 16 to make this transition and alleviate doubt about the Organization's ability to continue as a going concern. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about FareStart's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit 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 FareStart's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about FareStart's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Independent Auditors' Report, continued

Supplementary 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 state awards is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The accompanying consolidating statements of financial position and activities are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Similarly, the accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is also not a required part of the 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 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating statements of financial position and activities and the schedules of expenditures of federal and state awards are 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 20, 2024, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of FareStart's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering FareStart's internal control over financial reporting and compliance.

Finney, Neill & Company, P.S.

May 20, 2024
Seattle, Washington

FARESTART

Consolidated Statements of Financial Position
December 31, 2023 and 2022

ASSETS	2023	2022
Current Assets		
Cash and cash equivalents	$ 3,366,812	$ 3,606,878
Accounts receivable, net	675,728	926,524
Public contracts receivable	299,026	854,172
Promises to give - current	1,345,845	458,804
Contribution receivable for rent - current (Notes 10)	743,291	751,425
Prepaid expenses	171,465	289,092
Inventory	38,580	110,466
Total Current Assets	6,640,747	6,997,361
Investments, at fair value - board restricted	535,705	1,635,975
Employee Retention Credit receivable, net	2,112,820	-
Promises to give - long-term, net	920,422	110,000
Contribution receivable for rent, net of current (Notes 10)	1,838,190	2,581,730
Financing lease right-of-use assets	-	36,991
Operating lease right-of-use assets	303,241	358,667
Property and equipment, net	8,018,099	8,560,127
	$ 20,369,224	$ 20,280,851

LIABILITIES AND NET ASSETS	2023	2022
Current Liabilities		
Accounts payable	$ 752,453	$ 515,693
Accrued payroll expenses	598,385	643,717
Financing lease liability, current	-	5,998
Operating lease liability, current	157,840	222,814.00
Contract liabilities	101,012	55,531
Total Current Liabilities	1,609,690	1,443,753
Operating lease liability, net of current	156,520	151,311
Total Liabilities	1,766,210	1,595,064
Net Assets		
Without donor restrictions	13,085,487	14,797,633
With donor restrictions	5,517,527	3,888,154
Total Net Assets	18,603,014	18,685,787
	$ 20,369,224	$ 20,280,851

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

FareStart
Consolidated Statement of Activities
Year Ended December 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenue			
Food service revenue	$ 3,804,829	-	$ 3,804,829
Food service revenue from public contracts	1,869,852	-	1,869,852
In-kind contributions - food	413,568	-	413,568
	6,088,249	-	6,088,249
Cost of goods sold	2,272,227	-	2,272,227
Net Operating Revenue	3,816,022	-	3,816,022
Public Support and Other Revenue			
Private grants	1,198,107	3,829,844	5,027,951
Public contracts	1,430,482	-	1,430,482
Contributions - operating	2,538,667	1,156,490	3,695,157
In-kind contributions - non-food (Note 8)	1,214,035	-	1,214,035
Special events, net of direct benefits to donors of $223,458	1,812,072	-	1,812,072
Consulting services	233,949	-	233,949
Other revenue - Employee Retention Credits	2,112,823	-	2,112,823
Investment income and other	80,772	-	80,772
Total Public Support and Other Revenue	10,620,907	4,986,334	15,607,241
Net Assets Released from Restrictions			
Expiration of time restrictions	751,674	(751,674)	-
Satisfaction of purpose restrictions	2,605,287	(2,605,287)	-
Total Net Assets Released from Restrictions	3,356,961	(3,356,961)	-
Total Public Support, Revenue, and Other Support	17,793,890	1,629,373	19,423,263
Expenses			
Program services	14,162,930	-	14,162,930
Management and general			
FareStart Operations	3,289,685	-	3,289,685
FareStart Properties, LLC	194,777	-	194,777
Fundraising	1,870,426	-	1,870,426
Total Expenses	19,517,818	-	19,517,818
Revenue over (under) expenses	(1,723,928)	1,629,373	(94,555)
Net realized and unrealized gains (losses) on investments	11,782	-	11,782
Change in Net Assets	(1,712,146)	1,629,373	(82,773)
Net Assets, beginning of year	14,797,633	3,888,154	18,685,787
Net Assets, end of year	$ 13,085,487	5,517,527	$ 18,603,014

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

FareStart
Consolidated Statement of Activities
Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenue			
Food service revenue	$ 2,443,943	-	$ 2,443,943
Food service revenue from public contracts	4,330,313	-	4,330,313
In-kind contributions - food	554,640	-	554,640
	7,328,896	-	7,328,896
Cost of goods sold	3,571,789	-	3,571,789
Net Operating Revenue	3,757,107	-	3,757,107
Public Support and Other Revenue			
Private grants	2,290,156	1,297,143	3,587,299
Public contracts	1,227,186	-	1,227,186
Contributions - operating	2,113,007	1,235,719	3,348,726
In-kind contributions - non-food (Note 8)	992,831	-	992,831
Special events, net of direct benefits to donors of $406,369	1,764,846	-	1,764,846
Consulting services	86,241	-	86,241
Investment income and other	30,033	-	30,033
Total Public Support and Other Revenue	8,504,300	2,532,862	11,037,162
Net Assets Released from Restrictions			
Expiration of time restrictions	1,065,822	(1,065,822)	-
Satisfaction of purpose restrictions	2,156,664	(2,156,664)	-
Total Net Assets Released from Restrictions	3,222,486	(3,222,486)	-
Total Public Support, Revenue, and Other Support	15,483,893	(689,624)	14,794,269
Expenses			
Program services	14,663,952	-	14,663,952
Management and general			
FareStart Operations	3,086,710	-	3,086,710
FareStart Properties, LLC	179,689	-	179,689
Fundraising	2,240,768	-	2,240,768
Total Expenses	20,171,119	-	20,171,119
Revenue over (under) expenses	(4,687,226)	(689,624)	(5,376,850)
Net realized and unrealized gains (losses) on investments	(63,628)	-	(63,628)
Change in Net Assets	(4,750,854)	(689,624)	(5,440,478)
Net Assets, beginning of year, as restated	19,548,487	4,577,778	24,126,265
Net Assets, end of year	$ 14,797,633	3,888,154	$ 18,685,787

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

FareStart

Consolidated Statement of Functional Expenses
Year Ended December 31, 2023

	Food Service Training Program	Hunger Relief	Consulting	Café	**Total Programs**	Management and General: FareStart	Management and General: FareStart Properties, LLC	**Total Management and General**	**Fundraising**	**Total All Services**
Salaries and wages	$ 2,243,447	4,227,316	648,089	415,676	**7,534,528**	1,497,709	-	**1,497,709**	**1,013,943**	**$ 10,046,180**
Payroll taxes and benefits	531,822	1,169,593	149,688	114,268	**1,965,371**	339,939	-	**339,939**	**197,535**	**2,502,845**
Total wages and related expenses	2,775,269	5,396,909	797,777	529,944	**9,499,899**	1,837,648	-	**1,837,648**	**1,211,478**	**12,549,025**
Restaurant and café operating expenses:										
Linen services	3,081	42,174	-	4,288	**49,543**	6,770	-	**6,770**	**-**	**56,313**
Paper supplies	-	187,331	-	59,975	**247,306**	-	-	**-**	**-**	**247,306**
Repairs and maintenance	11,831	10,491	-	3,044	**25,366**	22,466	-	**22,466**	**-**	**47,832**
Other	41,943	218,992	3,861	6,899	**271,695**	24,287	-	**24,287**	**2,681**	**298,663**
Total restaurant and café operating expenses	56,855	458,988	3,861	74,206	**593,910**	53,523	-	**53,523**	**2,681**	**650,114**
Advertising	(1)	(3)	-	-	**(4)**	1,249	-	**1,249**	**11,675**	**12,920**
Bad debt and other losses	-	-	-	-	**-**	12,997	-	**12,997**	**-**	**12,997**
Bank charges	7,099	15,953	1,409	2,127	**26,588**	8,862	15	**8,877**	**53,287**	**88,752**
Board and staff development	6,778	10,059	1,415	1,102	**19,354**	20,086	-	**20,086**	**5,559**	**44,999**
Interest	5,642	12,679	1,120	1,690	**21,131**	7,044	-	**7,044**	**-**	**28,175**
Loss on asset impairment	2,598	5,839	516	778	**9,731**	164,598	-	**164,598**	**-**	**174,329**
Occupancy	387,692	922,378	42,372	132,587	**1,485,029**	139,078	14,216	**153,294**	**-**	**1,638,323**
Other expense	81,102	194,579	56,410	18,877	**350,968**	150,730	-	**150,730**	**482,000**	**983,698**
Professional fees	331,773	799,553	65,118	97,916	**1,294,360**	817,358	-	**817,358**	**45,249**	**2,156,967**
Re-grant expense	2,026	2,025	21,179	270	**25,500**	-	-	**-**	**-**	**25,500**
Student support	601,034	-	-	0	**601,034**	1,316	-	**1,316**	**-**	**602,350**
Supplies, postage, equipment and copies	6,439	14,715	855	1,147	**23,156**	4,438	-	**4,438**	**58,497**	**86,091**
Depreciation and amortization	56,677	127,364	11,251	16,982	**212,274**	70,758	180,546	**251,304**	**-**	**463,578**
Total expenses as shown on the Statement of Activities	4,320,983	7,961,038	1,003,283	877,626	**-** **14,162,930**	3,289,685	194,777	**3,484,462**	**1,870,426**	**19,517,818**
Cost of goods sold:										
Food purchases and other	9,033	1,579,407	-	270,219	**1,858,659**	**-**	**-**	**-**	**-**	**1,858,659**
In-kind donations of food	-	413,568	-	-	**413,568**	-	-	**-**	**-**	**413,568**
Total cost of goods sold	9,033	1,992,975	-	270,219	**2,272,227**	-	-	**-**	**-**	**2,272,227**
Special event expenses included with support and revenue on the statement of activities	-	-	-	-	**-**	-	-	**-**	**223,458**	**223,458**
Total	$ 4,330,016	9,954,013	1,003,283	1,147,845	**16,435,157**	3,289,685	194,777	**3,484,462**	**2,093,884**	**$ 22,013,503**

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

FARESTART

Consolidated Statement of Functional Expenses
Year Ended December 31, 2022

	Food Service Training Program	Hunger Relief	Consulting	Café	Total Programs	Management and General: FareStart	Management and General: FareStart Properties, LLC	Total Management and General	Fundraising	Total All Services
Salaries and wages	$ 1,886,924	5,157,984	682,791	40,189	7,767,888	1,195,877	-	1,195,877	1,268,395	$ 10,232,160
Payroll taxes and benefits	392,470	1,606,750	149,369	15,040	2,163,629	415,145	-	415,145	226,922	2,805,696
Total wages and related expenses	2,279,394	6,764,734	832,160	55,229	9,931,517	1,611,022	-	1,611,022	1,495,317	13,037,856
Restaurant and café operating expenses:										
Linen services	1,767	57,965	-	4,001	63,733	-	-	-	1,070	64,803
Paper supplies	-	444,092	-	31,654	475,746	-	-	-	-	475,746
Repairs and maintenance	335	57,040	103	48	57,526	1,224	-	1,224	-	58,750
Other	21,645	231,863	317	5,512	259,337	44,947	-	44,947	47,748	352,032
Total restaurant and café operating expenses	23,747	790,960	420	41,215	856,342	46,171	-	46,171	48,818	951,331
Advertising	139	558	42	19	758	506	-	506	10,673	11,937
Bad debt and other losses	-	-	-	-	-	149,232	-	149,232	-	149,232
Bank charges	2,752	11,069	848	585	15,254	10,042	35	10,077	79,633	104,964
Board and staff development	17,526	41,673	13,111	1,025	73,335	26,597	-	26,597	8,329	108,261
Interest	89	358	27	13	487	325	-	325	-	812
Occupancy	129,667	1,235,288	3,565	86,838	1,455,358	264,523	-	264,523	-	1,719,881
Other expense	36,367	348,619	25,706	19,208	429,900	145,946	-	145,946	396,609	972,455
Professional fees	155,933	903,463	47,882	22,222	1,129,500	646,886	-	646,886	157,875	1,934,261
Re-grant expense	24,139	20,885	1,599	742	47,365	-	-	-	-	47,365
Student support	363,242	640	67	23	363,972	581	-	581	-	364,553
Supplies, postage, equipment and copies	24,871	152,999	10,545	4,107	192,522	73,117	-	73,117	43,514	309,153
Depreciation and amortization	30,633	123,196	9,435	4,378	167,642	111,762	179,654	291,416	-	459,058
Total expenses as shown on the Statement of Activities	3,088,499	10,394,442	945,407	235,604	14,663,952	3,086,710	179,689	3,266,399	2,240,768	20,171,119
Cost of goods sold:										
Food purchases and other	54	2,813,953	-	203,142	3,017,149	-	-	-	-	3,017,149
In-kind donations of food	-	554,640	-	-	554,640	-	-	-	-	554,640
Total cost of goods sold	54	3,368,593	-	203,142	3,571,789	-	-	-	-	3,571,789
Special event expenses included with support and revenue on the statement of activities	-	-	-	-	-	-	-	-	406,369	406,369
Total	$ 3,088,553	13,763,035	945,407	438,746	18,235,741	3,086,710	179,689	3,266,399	2,647,137	$ 24,149,277

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

FARESTART
Consolidated Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	2023	2022
Cash flows provided (used) in operating activities:		
Cash received from:		
Public contracts	$ 1,985,628	$ 1,146,970
Private grants	5,027,951	3,587,299
Donors	3,809,766	5,324,393
Food sales	5,925,477	6,174,347
Consulting services	279,430	7,994
Interest, dividends and other	80,775	30,033
Cash paid for:		
Personnel	(12,636,223)	(13,022,441)
Services and supplies	(5,744,834)	(8,142,255)
Interest	(28,175)	(812)
Net cash provided (used) in operating activities	(1,300,205)	(4,894,472)
Cash flows provided (used) in investing activities:		
Purchases of investments	-	(17,308)
Sale of investments	1,112,052	-
Purchases of property and equipment	(45,915)	(823,427)
Net cash provided (used) in investing activities	1,066,137	(840,735)
Cash flows provided (used) in financing activities:		
Payment of financing lease liability	(5,998)	(45,524)
Net cash provided (used) in financing activities	(5,998)	(45,524)
Net increase (decrease) in cash and cash equivalents	(240,066)	(5,780,731)
Cash and cash equivalents at beginning of year	3,606,878	9,387,609
Cash and cash equivalents at end of year	$ 3,366,812	$ 3,606,878

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

Reconciliation of Changes in Net Assets to Net Cash Provided (Used) By Operating Activities:	2023	2022
Changes in net assets	$ (82,773)	$ (5,440,478)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	463,578	459,058
Loss on disposal of assets	124,365	10,503
Net realized and unrealized (gains) losses on investments	(11,782)	63,628
Decrease (increase) in:		
Accounts receivable	250,796	(642,955)
Public contracts receivable	555,146	(80,216)
Promises to give	(1,697,463)	210,821
Contribution receivable for rent	751,674	744,623
Prepaid expenses	117,627	(22,082)
Inventory	71,886	23,810
Employee Retention Credit Receivable	(2,112,820)	-
Right-of-use assets	92,417	(197,585)
(Decrease) increase in:		
Accounts payable	236,760	(168,502)
Accrued expenses	(45,332)	15,415
Deferred rent	-	(21,163)
Contract liabilities	45,481	(78,247)
Lease liabilities	(59,765)	228,898
Net cash provided (used) by operating activities	$ (1,300,205)	$ (4,894,472)

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Founded in 1992, FareStart is a nonprofit social enterprise organization that transforms lives, disrupts poverty, and nourishes communities through food, life skills, and job training so that people furthest from opportunity can realize their full potential.

Our food-based social enterprises serve as classrooms, where students gain valuable employment and self-empowerment skills that provide pathways into various culinary and food-based careers. Students learn and hone these skills in real-world situations while being in a supportive environment that includes wraparound social services such as housing, mental health support, transportation and more.

2022

Throughout the COVID pandemic, we evolved our job training programs to better meet the needs of our students and create pathways for personal stability and economic mobility. In 2022, 247 youth and adult students enrolled in FareStart job training programs; 174 students graduated; and 93 job placements and promotions were facilitated. Most of the programming remained virtual throughout the year, but we also started welcoming back students onsite with the launch of our new Food Pathways Program.

1) Online Learning Program, which is a continuation of the virtual program that we developed early in the pandemic. The program provides adults 18+ years of age up to six weeks of virtual learning that is focused on transferable skills that can be applied to a variety of different industries. In 2022, 91 students enrolled.

2) Food Pathways Program, an evolution of our former Adult Culinary Program, provides adults 18+ years of age with up to six months of training. Students learn self-empowerment skills, financial literacy and other life skills while learning on-the-job skills within our food security programs that will prepare students for careers in culinary and other food-based industries. In 2022, 22 students enrolled in the first year of the program.

3) Barista & Customer Service Program, which promotes education advancement and job readiness for young adults age 15½ - 24 years of age. Students receive up to seven weeks of training working with expert baristas. In 2022, this program remained fully virtual. We partnered with Seattle Public Schools' Interagency Academy and Nova High School, Y Social Impact Center and Gifts of Hope. In 2022, 134 students enrolled.

In 2022, we continued operating an expanded prepared meals program and a mobile community market to help decrease food insecurity in our communities, which had grown due to the pandemic. More than 1.5 million meals and meal equivalents were produced. FareStart also provided consulting, training, and resources to 40 nonprofit workforce development organizations across the country.

2023

This past year was a significant transition year as we continued to rebuild post-pandemic and move back toward our shared support model—balancing donations and earned revenue from our businesses—to support our job training programs and create more impact.

We successfully enrolled nearly 240 youth and adults across our training programs so students could learn new skills to obtain jobs. FareStart helped facilitate 85 job placements and promotions. As we refocused our efforts toward on-the-job training within our businesses, we graduated our final cohort of Online Learning Program students. This program was launched in response to the pandemic so we could continue training students in a virtual environment.

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

Between 2020 and 2023, the program served 260 students with life skills and self-empowerment training and wraparound support. We ended the year with two job training programs:

> 1) Food Pathways Program, which was launched in 2022, provides adults 18+ years of age with six months of training. Students learn self-empowerment skills, financial literacy and other life skills while learning on-the-job skills within our food security programs that will prepare students for careers in culinary and other food-based industries. In 2023, 70 students enrolled in the program --- over a 300% increase over the previous year.
>
> 2) Barista & Customer Service Program, which promotes education advancement and job readiness for young adults age 15½ - 24 years of age. Students receive up to seven weeks of training working with expert baristas. In 2023, most of the program participants returned to on-the-job training within our social enterprises. We partnered with Seattle Public Schools' Interagency Academy and Nova High School, Y Social Impact Center and Gifts of Hope. In 2023, 111 students enrolled into this program.

We continued to support food security across our community, with nearly 900,000 meals provided to local nonprofits, shelters and schools. As we scaled back to pre-pandemic meal production levels, we continued to activate our Mobile Community Market, which supported nearly 160 events across South King County in 2023.

FareStart also provided consulting, training, and resources to 44 other nonprofit workforce development organizations across the country. FareStart received significant funds via public contracts including federal funding via USDA Supplemental Nutrition Assistance Program ("SNAP") administered via the Department of Social and Health Services for the State of Washington, the Department of Commerce, as well as smaller individual amounts of funding from the City of Seattle and King County. FareStart typically generates philanthropy-related funding via fundraising events, major campaigns, grants, and annual giving. As government pandemic funding continued to wane, FareStart has been focused on relaunching and scaling our social enterprise businesses. Prior to the pandemic, our businesses --- a restaurant, cafes, community meals program and catering --- provided 50% of our revenue, enabling us to sustainably fund our mission while providing job training. Growing our businesses remains critical to FareStart's ability to realize its mission in a post-pandemic environment.

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.

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 two net asset classes according to donor imposed restrictions: net assets without donor restrictions and net assets with donor restrictions.

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of presentation, continued

The net assets of FareStart are classified as follows:

- Net assets without donor restrictions are available without restriction for support of FareStart's operations.
- Net assets with donor restrictions are restricted by donors to be used for certain purposes or in future periods and consisted of $5,517,527 and $3,888,154 at December 31, 2023 and 2022, respectively. Other donor restrictions may be perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity. FareStart had no net assets with perpetual restrictions at December 31, 2023 and 2022.

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 investment 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 and consulting and is stated at net realizable value and is unsecured. Management provides for uncollectible accounts receivable through a provision for bad debt and an adjustment to the allowance for credit losses based on its assessment of the current status of individual accounts using the probability of default/loss given default method. 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, 2023 and 2022, the allowance for credit losses was $32,122 and $86,787, respectively.

Receivables from contracts with customers are reported as accounts receivable, net in the accompanying consolidated statements of financial position. Contract liabilities are included in the accompanying consolidated statements of financial position.

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

Promises to give

Unconditional promises to give are stated at net realizable value when received. 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 – that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been 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. An allowance of $21,250 and $0 was recorded as of December 31, 2023 and 2022. Promises to give – long-term are due within three years. The long-term pledges are recorded at present value, discounted at the rate that reflects the relative risk of achieving the cash flows and the time value of money. A discount of $92,394 and $0 was recorded as of December 31, 2023 and 2022.

Inventory

Inventory is stated at the lower of cost or net realizable value 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 $5,000 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, five years for vehicles, five to fifteen years for leasehold improvements and forty years for buildings. Depreciation expense was $459,058 and $454,100 for the years ended December 31, 2023 and 2022. Property and equipment consisted of the following at December 31:

	2023	2022
Non-depreciable property:		
Land	$ 2,442,204	$ 2,442,204
Depreciable property and equipment:		
Building and improvements	8,848,816	8,832,845
Furniture, equipment and software	3,103,533	3,691,738
Vehicles	684,828	812,222
	15,079,381	15,779,009
Less accumulated depreciation	(7,061,282)	(7,218,882)
	$ 8,018,099	$ 8,560,127

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

Revenue and Revenue Recognition

The Organization recognizes contributions when cash, investments or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met. A portion of the Organization's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/ or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions.

Food service revenue is recognized upon delivery. Consulting fees are recognized and billed in the month services are provided to other non-profit organizations operating similar job training programs. The Organization records special events revenue equal to the fair value of direct benefits to donors, and contribution income for the excess received when the event takes place.

Restricted and unrestricted support

Donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of unrestricted activities as net assets released from restrictions.

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

Donated goods and services

Donated food, 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. FareStart utilizes contributed non-financial food, goods and services in the reporting period.

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 training and hunger relief programs and special events.

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. Wages and related expenses are allocated based on time and effort. Most other expenses, including occupancy, professional fees and depreciation are allocated based on headcount.

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.

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, 2023 and 2022.

FareStart recognizes income tax related interest in interest expense and penalties in operating expenses. During the years ended December 31, 2023 and 2022, 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, 2023 and 2022.

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

Advertising expenses

Advertising is expensed as incurred. For the years ended December 31, 2023 and 2022, advertising expense was $12,920 and $11,937, respectively.

New Accounting Pronouncement

In 2022, the Organization adopted Accounting Standards Update (ASU) No. 2016-02, *Leases*, which requires lessees to recognize leases on the statement of financial position and disclose key information about leasing arrangements. The Organization elected not to restate the comparative period (2021). It also elected not to reassess at adoption: (i) expired or existing contracts to determine whether they are or contain a lease, (ii) the lease classification of any existing leases, or (iii) initial direct costs for existing leases.

After the adoption of FASB ASC 842, *Leases*, on January 1, 2022, operating leases are included in right-of-use (ROU) assets and lease liabilities on the Organization's statements of financial position. ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the leases do not provide an implicit rate, the Organization uses a risk-free rate based on the information available at commencement date in determining the present value of lease payments. The ROU lease asset also includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Organization has elected to apply the short-term lease exemption to all classes of underlying assets.

During the year ended December 31, 2022, the Organization retrospectively adopted the provisions of ASU No. 2020-07*, Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, issued by the FASB. The pronouncement was issued to increase the transparency of contributed nonfinancial assets for not-for-profit entities through enhancements to presentation and disclosure. ASU No. 2020-07 does not change the existing recognition and measurement requirements for contributed nonfinancial assets. The new standard requires that contributed nonfinancial assets are presented separately in the statement of activities. New disclosures are also required to disaggregate contributed nonfinancial assets by category type and other qualitative information about utilization, policies, and valuation techniques. Adoption of ASU No. 2020-07 did not have an impact on the consolidated financial statements of the Organization for the years ended December 31, 2023 or 2022.

On January 1, 2023, the Organization adopted Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments – Credit* Losses (Topic 326): *Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 replaces the incurred loss methodology with an expected loss methodology by introducing the Current Expected Credit Loss (CECL) model, which requires entities to measure credit losses based on historical experience, current conditions, and reasonable and supportable forecasts. The Organization adopted ASC 326 prospectively, resulting in no cumulative adjustments to retained earnings.

NOTE 2 – SUBSEQUENT EVENTS

On January 19, 2024, FSP LLC closed on a $3 million loan collateralized by real estate. The loan requires monthly payments of principal and interest and is due January 2027. The loan carries interest at 2.55% above the 3-year U.S. Treasury Yield and shall not be less than 7.25%. Under the terms of the loan, FareStart amended its lease with FSP LLC, increasing the monthly rent to $36,573 per month. Future payments on the loan are as follows for the years ending December 31:

2024	$	36,010
2025		46,217
2026		49,731
2027		2,868,042
Thereafter		-
	$	3,000,000

In March 2024, the Organization entered into a $716,000 construction contract to remodel the restaurant location as part of the relaunch of social enterprise. Subsequent events, including those disclosed in Notes 15 & 16, have been evaluated through May 20, 2024, which is the date the consolidated financial statements were available to be issued.

NOTE 3 – LIQUIDITY

FareStart concluded the years ended December 31 with the following liquid or near-liquid resources:

	2023	2022
Operating cash	$ 3,366,812	$ 2,475,220
Bank controlled cash	-	1,131,658
Accounts receivable, net	675,728	926,524
Federal awards receivable	299,026	854,172
Promises to give - current	1,345,845	458,804
Board designated reserve	301	1,131,539
FareStart property reserve	535,404	504,436
Subtotal	6,223,116	7,482,353
Less amounts not available to be used within one year:		
Net assets with donor restrictions	2,936,046	554,999
Net assets with purpose restrictions to be met in less than a year	(2,015,624)	(400,000)
	920,422	154,999
Financial assets available to meet general expeditures over the next twelve months	$ 5,302,694	$ 7,327,354

Both of the reserve accounts are board-designated reserves with the objective of setting aside funds to be drawn upon in the event of a liquidity need resulting from events outside ordinary operations. The institution's target for this total reserve is $515,000 at December 31, 2023. The reserve funds are held in lower-risk investments which prioritize principal preservation over growth.

NOTE 4 – INVESTMENTS – BOARD RESTRICTED

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

	2023	2022
Exchange traded funds	$ -	$ 1,131,512
Money market funds	2,795	2,507
Mutual funds	532,910	501,956
	$ 535,705	$ 1,635,975

The Organization's board has designated net assets without donor restrictions equal to the fair value of investments – board restricted presented above for the purpose of enabling the Organization to meet long-term objectives. Investment income consists of the following for the years ended December 31:

	2023	2022
Interest	$ 43,173	$ 2,403
Dividends	37,602	27,632
	$ 80,775	$ 30,035

Changes in net unrealized gains (losses) on investments are comprised of unrealized gains (losses) of $11,782 and $(63,628) for the years ended December 31, 2023 and 2022. Each type of investment is held in a single investment fund, which may subject the Organization to market risk.

NOTE 5 - 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 at the measurement date.

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.

NOTE 5 - FAIR VALUE MEASUREMENTS, continued

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

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

Investments in exchange traded funds and money market funds: Valued at the daily closing price as reported by the fund. These investments are registered with the SEC and are required to publish their daily net asset value (NAV) and to transact at that price.

Investments in mutual funds: Valued at fair market value of securities held at year end as provided by broker, 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 6 – PROMISES TO GIVE

Multi-year grants receivable for programs are included in promises to give. Promises to give are reported at present value and were discounted at 4.9% and 0% as of December 31, 2023 and 2022, respectively.

Promises to give consisted of the following at December 31:

	2023	2022
Amounts due in:		
Less than one year, net of allowance	$ 1,345,845	$ 458,804
One to five years, net of discount	920,422	110,000
	$ 2,266,267	$ 568,804

NOTE 7 - LINE OF CREDIT

FareStart had a $1,000,000 secured line of credit that expired on October 31, 2023 and was not renewed. Advances on the line of credit are payable on demand and carry interest at 2.0% over the one month internal bank rate, which was 6.12% at December 31, 2022. The line was collateralized by the investments and bank controlled cash account. There were advances of $0 and $0 outstanding as of December 31, 2023 and 2022.

NOTE 8 – IN-KIND CONTRIBUTIONS – GOODS AND SERVICES

In-kind contributions of goods and services consist of the following for the years ended December 31:

	2023		2022	
	Goods	Services	Goods	Services
Food service training program	$ 1,935	688,636	$ 19,045	-
Hunger relief program	7,349	16,358	55,565	31,874
Management and general	244,155	3,463	553,413	9,740
Fundraising	252,139	-	322,994	200
	$ 505,578	708,457	$ 951,017	41,814

NOTE 9 – RELATED PARTY TRANSACTIONS

Board of Director Contributions

During the years ended December 31, 2023 and 2022, respectively, FareStart received $225,643 and $111,443 in contributions from the members of the Board of Directors. Additionally, $10,000 and $8,453 of promises to give are recorded as receivable from members of the Board of Directors as of December 31, 2023 and 2022.

NOTE 10 – LEASE COMMITMENTS

Capital Leases

FareStart has financed the purchase of IT equipment of $79,266 and $79,266 as of December 31, 2023 and 2022, respectively. Accumulated amortization of $58,129 and $42,275 was recorded at December 31, 2023 and 2022, respectively. The lease carries an interest rate of 0% and will be repaid over lease term in the year ending December 31, 2023.

Operating Leases

FareStart leases its main office and branch locations pursuant to terms of various operating lease agreements. FareStart leased its main office from FSP LLC for $132,384 for the years ended December 31, 2023 and 2022. The agreement terminates March 2038 and has been modified in 2024 as disclosed in Note 2. Transactions associated with the lease are eliminated in consolidation as disclosed in Note 18.

FareStart leases a contract kitchen under a five year lease that began September 1, 2014 and includes the option to renew for two five-year periods beyond the initial lease term. FareStart exercised the first option to renew in 2019.

FareStart leases office equipment under non-cancelable operating lease agreements that terminate in 2024 and 2026.

NOTE 10 – LEASE COMMITMENTS, continued

The components of lease expense were as follows for the years ended December 31:

	2023	2022
Finance lease expense		
Amortization of ROU assets	$ 15,853	$ 15,853
Interest on lease liabilities	-	-
Operating lease expense	218,328	218,328
	$ 234,181	$ 234,181

Other information related to leases was a follows for the years ended December 31:

	2023	2022
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from finance leases (i.e. Interest)	$ -	$ -
Financing cash flows from finance leases (i.e. principal portion)	$ -	$ 23,998
Operating cash flows from operating leases	$ 192,635	$ 217,388
Weighted-average remaining lease term in years for finance leases	0.00	0.25
Weighted-average remaining lease term in years for operating leases	2.86	1.77
Weighted-average discount rate for finance leases	0.00%	0.40%
Weighted-average discount rate for operating leases	2.61%	1.03%

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

	Finance	Operating
2024	$ -	$ 164,277
2025	-	51,318
2026	-	51,004
2027	-	47,277
2028		16,061
Thereafter	-	-
Total undiscounted cash flows	-	329,937
Less: present value discount	-	(15,577)
Total lease liabilities	$ -	$ 314,360

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

NOTE 10 – LEASE COMMITMENTS, continued

In-Kind Leases

In 2017, FareStart executed sublease agreements in which the landlord provided FareStart space at no cost. The contribution receivable for rent represents the fair value of rent contributed to FareStart. The landlord provided the facilities in a fully built-out condition ready for foodservice operations and agreed to pay for all operating costs associated with the use of the space over the life of the lease. One agreement is for an initial five-year term with two five-year extensions at no cost to FareStart. The other agreement has been amended to a four year term that expired in 2021. In 2021, the same landlord executed a new sublease agreement for commercial kitchen space for a five year term beginning in January 2022. The amount of the contributed rent, operating expenses, and use of the build-out and furniture and fixtures to be received is $2,581,481 and $3,331,155 at December 31, 2023 and 2022. Discount interest rates of 7.53% - 7.64% for rent and at 4.2% for other contributions were used in the valuation of these contributions.

The amounts are due in the following years ending December 31:

	Recognized Contribution	Discount Receivable (Interest Portion)	Total
2024	$ 800,532	(57,241)	$ 743,291
2025	815,866	(80,069)	735,797
2026	832,010	(103,087)	728,923
2027	120,663	(28,663)	92,000
2028	90,261	(26,841)	63,420
Thereafter	333,594	(115,544)	218,050
	$ 2,992,926	(411,445)	$ 2,581,481

The in-kind portion of rent expense included in occupancy expense was $785,959 and $743,393 for the years ended December 31, 2023 and 2022.

NOTE 11 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes at December 31:

	2023	2022
Purpose restricted gifts:		
Youth Training	$ 95,000	$ 55,000
Hunger Relief	-	50,000
Food Pathways	1,912,760	-
Social Enterprise	600,000	-
Community Market	124,477	-
Innovations	-	200,000
Other	8,809	-
Total purpose restricted gifts	2,741,046	305,000
Time restricted gifts:		
Contribution receivable for rent	2,581,481	3,333,155
Contributions with payments due in future periods	195,000	249,999
Total time restricted gifts	2,776,481	3,583,154
Total restricted gifts	$ 5,517,527	$ 3,888,154

NOTE 12 – REVENUE FROM CONTRACTS WITH CUSTOMERS

FareStart recognized revenue from contracts with consulting customers of $233,949 and $86,241 for the years ended December 31, 2023 and 2022, respectively. These revenues are reported as consulting services on the consolidated statements of activities. The following table provides information about significant changes in contract liabilities included on the consolidated statements of financial position for the years ended December 31:

	2023	2022
Consulting services deferred contract liabilities, beginning of year	$ 25,000	$ 30,562
Revenue recognized that was included in deferred contract liabilities at the beginning of the year	(25,000)	(30,562)
Increase in deferred contract liabilities due to cash received during the perioc	68,500	25,000
Consulting services deferred contract liabilities, end of year	$ 68,500	$ 25,000

NOTE 13 – EMPLOYEE RETENTION CREDIT

FareStart is eligible for the Employee Retention Credit ("ERC") under the CARES Act signed into law on March 27, 2020 and the subsequent extension of the CARES Act. The ERC provides eligible employers with less than 500 employees a refundable tax credit against the employer's share of social security taxes. The ERC is equal to a maximum credit of $5,000 per employee in calendar year 2020 and a maximum of $7,000 per employee per eligible quarter in calendar 2021. The Organization submitted Form 941-X Adjusted Employer's Quarterly Federal Tax Return or Claim for Refund for the quarters ended June 30, 2020, September 30, 2020, December 31, 2020, March 31, 2021, June 30, 2021, and September 30, 2021 in October 2023. Credits claimed on the filings total $3,356,544.

NOTE 13 – EMPLOYEE RETENTION CREDIT, continued

The filings were submitted to the IRS during the moratorium on processing new claims that the IRS imposed September 14, 2023, which has not been lifted as of the date these financial statements were available to be issued. The credits for 5 of the 6 quarters totaling $2,356,314 were recognized as revenue in 2023 when eligibility was determined under ASC 958-605 and are subject to approval by the IRS when it resumes processing new claims. Management does not feel that there is any significant risk to the claim for refund being accepted and processed by the IRS. Proposed legislation in U.S. Congress would end the program for filings received after January 31, 2024. However, all of FareStart's 941-X submissions were made in October 2023 before that proposed deadline. Based on reported IRS processing times, the ERC receivable is recorded as a non-current asset as of December 31, 2023 as it is expected to be received in 2025. As such the ERC receivable is reported at present value net of a discount of 5.56% or $243,491.

NOTE 14 – DEFINED CONTRIBUTION RETIREMENT PLAN

FareStart maintains a 401(k) plan for all eligible employees with a minimum of 90 days of service. The plan requires mandatory employer matching contributions equal to employees' contributions up to 4% of employee eligible compensation. FareStart contributed $218,627 and $222,769 to the plan in the years ended December 31, 2023 and 2022, respectively.

NOTE 15 – ECONOMIC CONCENTRATIONS AND CONTINGENCIES

FareStart receives contract revenue from one government agency which provided 21% and 4% of FareStart's unrestricted public support and other revenue for the years ended December 31, 2023 and 2022, 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, 2023 and 2022, no such adjustments were made.

An individual granting organization provided 78% and 27% of restricted private grant contributions in the years ended December 31, 2023 and 2022, respectively. One federal award funder composed 57% and 45% of government grants receivable as of December 31, 2023 and 2022. One donor composed 84% and 29% of promises to give as of December 31, 2023 and 2022. One landlord comprised 100% of contributions receivable for rent as of both December 31, 2023 and 2022. One vendor supplied 60% and 86% of FareStart's food purchases which are included in cost of goods sold for both of the years ended December 31, 2023 and 2022.

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

At December 31, 2023, the Organization accrued a $48,268 contingency for legal costs and insurance deductibles related to two employment claims. The estimated damages are within the insurance coverage limit and were settled in 2024 prior to the date the financial statements were available to be issued. No accrual for risk of additional potential loss is considered necessary.

NOTE 16 – GOING CONCERN AND IMPACT OF COVID-19 PANDEMIC

In response to community needs that emerged in the COVID-19 pandemic and restrictions on retail restaurant operations in the State of Washington during that time, the Organization pivoted away from its historical social enterprise approach to provide hunger relief meals at a much larger scale to the Puget Sound region. A significant portion of these meals were funded through government grants made possible through federal COVID-19 relief programs for which funding ended in 2023. After incurring significant losses in 2022, the Organization initiated plans to relaunch social enterprises that would incur start-up costs in 2023 and 2024. These conditions required management to evaluate the Organization's ability to continue as a going concern and develop plans to address those concerns and align with new market conditions. In response, the Organization downsized operations in 2023 by eliminating approximately 39% of its workforce and reduced expenses accordingly.

Through engagement in 2023 with consultants at Deloitte, the Organization identified key areas of business necessary to successfully relaunch its social enterprise programs and earned revenue. These ventures were included in the 2024 budget that closely breaks even in net assets and cash flow. Throughout the first quarter of 2024 the Organization has met and exceeded its plan. To further stabilize cash reserves during the relaunch of social enterprise, the Organization closed on a $3M loan as disclosed in Note 2 and has submitted requests for refunds of Employee Retention Credits as disclosed in Note 13.

NOTE 17 – PRIOR PERIOD ADJUSTMENT

December 2021 invoices for emergency meals funded by public contracts were incorrectly recorded as 2022 transactions. As such, the following financial statement line item has been restated as of December 31, 2021:

	As reported	Adjustment	As restated
Net assets, beginning of year	$ 23,730,624	395,641	$ 24,126,265

NOTE 18 – SUMMARIZED CONSOLIDATING SCHEDULES FOR 2023

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

	FareStart	FareStart Properties, LLC	Eliminating Entries	Consolidated Balances
Assets	$ 11,979,144	7,203,754	1,186,329	$ 20,369,227
Liabilities	$ 1,766,210	31,773	(31,773)	$ 1,766,210
Net Assets	10,212,934	7,171,981	1,218,102	18,603,017
Total Net Assets and Liabilities	$ 11,979,144	7,203,754	1,186,329	$ 20,369,227

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

NOTE 18 – SUMMARIZED CONSOLIDATING SCHEDULES FOR 2023, continued

As reflected in the schedule below, FareStart recorded a decrease in consolidated net assets of $82,773, reflecting revenue in excess of expense at FareStart of $34,052, and a net decrease of $116,825 at FSP LLC, due primarily to building depreciation expense.

	FareStart	FareStart Properties, LLC	Eliminating Entries	Consolidated Balances
Operating revenue	$ 6,088,249	-	-	$ 6,088,249
Cost of goods sold	2,272,227	-	-	2,272,227
Net Operating Revenue	3,816,022	-	-	3,816,022
Unrestricted Public Support and Other Revenue				
Grants, contracts and contributions	5,167,256	-	-	5,167,256
In-kind contributions - other	1,214,035	-	-	1,214,035
Special events, net of direct benefits to donors	1,812,072	-	-	1,812,072
Services and membership dues - Catalyst Kitchens	233,949	-	-	233,949
Other revenue - Employee Retention Credits	2,112,823	-	-	2,112,823
Investment income and other	135,204	132,384	(186,816)	80,772
Total Unrestricted Public Support and other revenue	10,675,339	132,384	(186,816)	10,620,907
Total Unrestricted Support and Revenue	14,491,361	132,384	(186,816)	14,436,929
Expenses:				
Wages and related expenses	12,549,025	-	-	12,549,025
Restaurant and café operating expenses	650,114	-	-	650,114
Advertising	12,920	-	-	12,920
Bank charges, bad debt and other expenses	101,734	15	-	101,749
Board and staff development	44,999	-	-	44,999
Interest	28,175	-	-	28,175
Loss on asset impairment	174,329	-	-	174,329
Occupancy	1,756,491	14,216	(132,384)	1,638,323
Other expense	983,698	-	-	983,698
Professional fees	2,156,967	54,432	(54,432)	2,156,967
Re-grant expense	25,500	-	-	25,500
Student support	602,350	-	-	602,350
Supplies, postage and copies	86,091	-	-	86,091
Depreciation and amortization	283,032	180,546	-	463,578
Total Expenses	19,455,425	249,209	(186,816)	19,517,818
Net realized and unrealized gains (losses) on investments	11,782	-	-	11,782
Restricted revenue	4,986,334	-	-	4,986,334
Total change in net assets	$ 34,052	(116,825)	-	$ (82,773)

Supplementary Financial Information

FareStart

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2023

	Federal Assistance Listing	Pass-Through Entity Identifying Number	Expenditures: Pass-Through Awards of Federal Expenditures	Expenditures: Loan Balance Outstanding	Expenditures: Total
Department of Agriculture:					
Food and Nutrition Service					
State Adminstrative Matching Grants for the Supplemental Nutrition Assistance Program					
Pass-Through Program From Washington State Department of Social and Health Services - Basic Food Employment and Training	*10.561	2212-44818	$ 486,621	-	$ 486,621
State Adminstrative Matching Grants for the Supplemental Nutrition Assistance Program					
Pass-Through Program From Washington State Department of Social and Health Services - Basic Food Employment and Training	*10.561	2312-50515	155,890	-	155,890
Subtotal Supplemental Nutrition Assistance Program/Cluster			642,511	-	642,511
Subtotal Department of Agriculture			**642,511**	**-**	**642,511**
Department of the Treasury					
COVID-19: Coronavirus State and Local Fiscal Recovery Funds					
Pass-Through Program From Washington State Department of Agriculture	21.027	K3991	**206,308**	**-**	**206,308**
Total Expenditures of Federal Awards			$ 848,819	-	$ 848,819

* 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, 2023. 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.

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

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Directors
FareStart

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of FareStart (a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2023, 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 May 20, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered FareStart's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of FareStart's internal control. 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's 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 or significant deficiencies may exist that were not identified.

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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards,* continued

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether FareStart's financial statements are free from 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 financial statements. 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*.

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

Finney, Neill & Company, P.S.

Seattle, Washington
May 20, 2024

Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required By the Uniform Guidance

Board of Directors
FareStart

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited FareStart's compliance with the types of compliance requirements identified as subject to audit 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, 2023. FareStart's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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, 2023.

Basis for Opinion on Each Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of FareStart and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of FareStart's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to FareStart's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on FareStart's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about FareStart's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding FareStart's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of FareStart's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 FareStart's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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.

Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required By the Uniform Guidance, continued

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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, Neill & Company, P.S.

Seattle, Washington
May 20, 2024

FARESTART

Schedule of Findings and Questioned Costs
Year Ended December 31, 2023

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:

CFDA Numbers	Name of Federal Program
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program

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

Auditee qualifies as low-risk auditee? ________ yes __X__ no

Section II – Financial Statement Findings

None

Section III – Federal Award Findings

None

FareStart

Schedule of Findings and Questioned Costs
Year Ended December 31, 2023

Section IV - Summary Schedule of Prior Audit Findings

2022 - 001 Accounting System, Processes and Reporting

Finding:
Internal control processes over financial accounting did not ensure that all transactions were properly recorded in accordance with U.S. GAAP on a timely basis.

Current Status:
Management has implemented a standardized process for accruing monthly revenue and expenses related to public contracts.

2022-002 Reporting - Schedule of Expenditures of Federal Awards (SEFA)

Finding:
Internal control processes over financial reporting did not ensure the complete and accurate reporting of federal awards presented on the Schedule of Expenditures of Federal Awards.

Current Status:
Management has implemented a centralized documentation system for tracking public contracts by funding source and for identifying FareStart's role as a subrecipient or vendor.

2022-003 Reporting – Late Submission to Federal Audit Clearinghouse

Finding:
The Organization did not file its annual 2022 Single Audit and Data Collection Form timely.

Current Status:
The 2022 Single Audit and Data Collection form were submitted to and accepted by the Federal Audit Clearinghouse on May 23, 2024.

FareStart

Schedule of Expenditures of State Awards

Year Ended December 31, 2023

State Program Sponsor *Pass-Through Grantor* Program Title	State Identifying Number	Grant Period		State Expenditures
Washington State Department of Commerce				
Homeless Housing Program	21-46108-312	07/01/2021 - 06/30/2023	$	1,201,461
Permanent Supportive Housing Hunger Relief	24-46117-001	07/15/2023 - 06/30/2024		275,000
Capital Improvements	20-96622-010	09/05/2019 - 06/30/2023		41,801
				1,518,262
Washington State Department of Children, Youth & Families				
Echo Glen Children's Center Program	2312-52368	11/20/2023 - 10/31/2024		10,000
				10,000
Total Expenditures of State Awards			**$**	**1,528,262**

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of state awards (the Schedule) includes the activity of FareStart under programs of the State of Washington for the year ended December 31, 2023. The information in this schedule is presented in accordance with the requirements of the Government Accountability Office 2018 Revised Yellow Book. 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. Expenditures reported on the Schedule reflect total billings to state programs for eligible costs expended during the year ended December 31, 2023.