



June 26, 2018

FareStart Board of Directors

www.farestart.org

Letter to Accompany 2017 Audited Financial Statements

Dear Board of Directors –

2017 was a remarkably exciting year for the institution with several milestones achieved. Of note is our significant program and physical expansion in July. This consisted of the launch of our new Foodservice Apprenticeship Program and the opening, or expansion of, social enterprises: three new fast-casual food concepts, a new café, a new full-service restaurant and significantly enhanced catering operations – all designed to provide on-the-job training for our Apprentices. Our Apprenticeship Program provides the training and support for foodservice workers to skill-up and advance their career toward a living wage job. Thus far, program outcomes have exceeded expectations with graduates achieving an average wage increase of 42%.

We couldn't have launched this new program and social enterprises without the material support of our landlord, the impact of which you now see represented in our audited financial statements enclosed. Because the 2017 numbers are so dramatically different than 2016, we felt additional disclosure is warranted. In compliance with GAAP, the donated use of approximately 30,000 square feet of built out and ready to operate space is recorded as an "in-kind" contribution, and our use of it will be recorded over time pursuant to agreements executed between the parties (more detail in Note 11 on page 17). This gift has materially changed some of the balances in our financials but operationally we have not changed significantly. Our cash flows on page 8 remain consistent with previous years and the need for the strong support of the community to fulfill our mission and serve our students, apprentices and graduates remains critical.

For any questions on the accompanying financial statements I encourage you to call or email our CFO, Ryan Dean at (206) 267-7603 or email at ryan.dean@farestart.org.

With gratitude

Craig Russell
Interim CEO

FareStart helps people transform their lives through food providing real solutions to poverty, homelessness and hunger.

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FARESTART
CONSOLIDATED FINANCIAL STATEMENTS
AND
FEDERAL SINGLE AUDIT REPORTS
DECEMBER 31, 2017 AND 2016

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, 2017 and 2016, 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, 2017 and 2016, 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 June 22, 2018 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, Hill & Company, P.S.

June 22, 2018
Seattle, Washington

FARESTART
Consolidated Statements of Financial Position
December 31, 2017 and 2016

<u>ASSETS</u>	<u>2017</u>	<u>2016</u>
Current Assets		
Cash and cash equivalents	\$ 1,572,828	\$ 1,714,377
Accounts receivable, net	1,769,236	589,654
Promises to give - current	763,571	389,601
Contribution receivable for rent - current (Note 11)	2,720,141	-
Prepaid expenses	354,444	280,636
Inventory	135,116	70,894
Other assets	<u>78,457</u>	<u>-</u>
Total Current Assets	7,393,793	3,045,162
Cash and investments, at fair value - board restricted	1,617,020	1,640,968
Promises to give - long-term, net	1,303,606	25,000
Contribution receivable for rent, net of current (Note 11)	27,888,845	-
Property and equipment, net	9,108,739	9,686,118
Capitalized costs, net	<u>39,044</u>	<u>-</u>
	<u>\$ 47,351,047</u>	<u>\$ 14,397,248</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable	\$ 789,798	\$ 381,056
Accrued payroll expenses	795,111	474,052
Line of credit	925,000	-
Notes payable - current	21,756	-
Deferred revenue	<u>295,245</u>	<u>319,755</u>
Total Current Liabilities	2,826,910	1,174,863
Notes payable, net of current	55,065	-
Deferred rent liability	<u>21,653</u>	<u>32,299</u>
Total Liabilities	2,903,628	1,207,162
Net Assets		
Unrestricted	11,783,726	12,915,586
Temporarily restricted	<u>32,663,693</u>	<u>274,500</u>
Total Net Assets	<u>44,447,419</u>	<u>13,190,086</u>
	<u>\$ 47,351,047</u>	<u>\$ 14,397,248</u>

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

FARESTART
Consolidated Statement of Activities
Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Total
Operating Revenue			
Food service revenue	\$ 7,999,537	-	\$ 7,999,537
In-kind contributions - food	<u>207,619</u>	<u>-</u>	<u>207,619</u>
	8,207,156	-	8,207,156
Cost of goods sold	<u>2,067,160</u>	<u>-</u>	<u>2,067,160</u>
Net Operating Revenue	<u>6,139,996</u>	<u>-</u>	<u>6,139,996</u>
Public Support and Other Revenue			
Private grants	2,506,284	2,491,817	4,998,101
Public contracts	1,749,757	-	1,749,757
Contributions - operating	2,816,232	-	2,816,232
In-kind contributions - non-food (Note 11)	939,193	31,753,756	32,692,949
Special events, net of direct benefits to donors of \$292,695	1,524,679	-	1,524,679
Services and membership dues - Catalyst Kitchens	296,740	-	296,740
Investment income	25,187	-	25,187
Other revenue (expense)	<u>5,605</u>	<u>-</u>	<u>5,605</u>
Total Public Support and Other Revenue	9,863,677	34,245,573	44,109,250
Net Assets Released from Restrictions			
Expiration of time restrictions	1,667,927	(1,667,927)	-
Satisfaction of purpose restrictions	<u>188,453</u>	<u>(188,453)</u>	<u>-</u>
Total Net Assets Released from Restrictions	<u>1,856,380</u>	<u>(1,856,380)</u>	<u>-</u>
Total Public Support, Revenue, and Other Support	<u>17,860,053</u>	<u>32,389,193</u>	<u>50,249,246</u>
Expenses			
Program services	14,160,527	-	14,160,527
Management and general			
FareStart Operations	2,686,259	-	2,686,259
FareStart Properties, LLC	196,772	-	196,772
Fundraising	<u>1,949,246</u>	<u>-</u>	<u>1,949,246</u>
Total Expenses	<u>18,992,804</u>	<u>-</u>	<u>18,992,804</u>
Revenue over (under) expenses	(1,132,751)	32,389,193	31,256,442
Net realized and unrealized gains (losses) on investments	<u>891</u>	<u>-</u>	<u>891</u>
Change in Net Assets	(1,131,860)	32,389,193	31,257,333
Net Assets, beginning of year	<u>12,915,586</u>	<u>274,500</u>	<u>13,190,086</u>
Net Assets, end of year	<u>\$ 11,783,726</u>	<u>32,663,693</u>	<u>\$ 44,447,419</u>

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

FARESTART
Consolidated Statement of Activities
Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Total
Operating Revenue			
Food service revenue	\$ 5,975,247	-	\$ 5,975,247
In-kind contributions - food	<u>167,623</u>	<u>-</u>	<u>167,623</u>
	6,142,870	-	6,142,870
Cost of goods sold	<u>1,373,400</u>	<u>-</u>	<u>1,373,400</u>
Net Operating Revenue	<u>4,769,470</u>	<u>-</u>	<u>4,769,470</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	1,640,372	-	1,640,372
In-kind contributions - non-food	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	6,454,571	232,000	6,686,571
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 Functional Expenses
Year Ended December 31, 2017

	Food Service Training Program	Management and General		Total Management and General	Fundraising	Total All Services
		FareStart	FareStart Properties, LLC			
Salaries and wages	\$ 6,960,761	1,025,807	-	1,025,807	973,593	\$ 8,960,161
Payroll taxes and benefits	1,334,580	155,221	-	155,221	168,712	1,658,513
Total wages and related expenses	8,295,341	1,181,028	-	1,181,028	1,142,305	10,618,674
Restaurant and café operating expenses:						
Linen services	160,413	-	-	-	-	160,413
Paper supplies	122,520	117	-	117	-	122,637
Repairs and maintenance	51,993	116	-	116	116	52,225
Other	434,726	10,055	71	10,126	24,444	469,296
Total restaurant and café operating expenses	769,652	10,288	71	10,359	24,560	804,571
Advertising	69,411	-	-	-	4,924	74,335
Bad debt and other losses	-	15,968	-	15,968	-	15,968
Bank charges	177,335	38,002	82	38,084	53,676	269,095
Board and staff development	81,654	60,752	-	60,752	11,484	153,890
Complimentary meals	-	11,290	-	11,290	4,493	15,783
Insurance	81,538	4,631	-	4,631	4,631	90,800
Interest	-	9,624	-	9,624	-	9,624
Loss on disposition of assets	7,988	294,923	24,064	318,987	-	326,975
Miscellaneous expense	98,042	58,416	-	58,416	59,439	215,897
Occupancy	1,987,582	44,634	-	44,634	41,235	2,073,451
Professional fees	238,940	845,126	-	845,126	414,022	1,498,088
Program materials and meetings	1,119	549	-	549	5,142	6,810
Space rental	117,433	-	-	-	90,600	208,033
Startup expenses	733,061	36,740	-	36,740	-	769,801
Student and staff meals	92,534	5,104	-	5,104	5,104	102,742
Student support	722,335	337	-	337	-	722,672
Supplies, postage and copies	250,469	30,668	-	30,668	69,790	350,927
Transportation	50,495	12,497	-	12,497	4,539	67,531
Depreciation and amortization	385,598	25,682	172,555	198,237	13,302	597,137
Total expenses as shown on the Statement of Activities	14,160,527	2,686,259	196,772	2,883,031	1,949,246	18,992,804
Cost of goods sold:						
Food purchases	1,726,134	-	-	-	-	1,726,134
Alcohol purchases	120,793	-	-	-	-	120,793
Supplies and other	12,614	-	-	-	-	12,614
In-kind donations of food	205,127	-	-	-	2,492	207,619
Total cost of goods sold	2,064,668	-	-	-	2,492	2,067,160
Total	\$ 16,225,195	2,686,259	196,772	2,883,031	1,951,738	\$ 21,059,964

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 FareStart	Properties, LLC	Total Management and General	Fundraising	Total All Services
Salaries and wages	\$ 4,319,942	875,994	-	875,994	876,199	\$ 6,072,135
Payroll taxes and benefits	909,870	173,074	-	173,074	146,166	1,229,110
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	300,051	7,533	-	7,533	48,083	355,667
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 and amortization	551,858	40,684	172,555	213,239	40,684	805,781
Total expenses as shown on the Statement of Activities	9,213,514	1,651,601	193,410	1,845,011	1,584,249	12,642,774
Cost of goods sold:						
Food purchases	1,145,919	-	-	-	-	1,145,919
Alcohol purchases	65,989	-	-	-	-	65,989
Supplies and other	600	-	-	-	-	600
In-kind donations of food	153,886	-	-	-	7,006	160,892
Total cost of goods sold	1,366,394	-	-	-	7,006	1,373,400
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 Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows provided (used) in operating activities:		
Cash received from:		
Public contracts	\$ 1,267,526	\$ 1,729,330
Private grants	4,973,591	1,266,418
Donors	2,488,335	3,253,246
Sales to the public	7,302,186	5,957,465
Services and membership dues - Catalyst Kitchens	296,740	300,965
Interest and dividends	25,187	27,241
Other	5,605	7,944
Cash paid for:		
Personnel	(10,297,615)	(7,235,654)
Services and supplies	(7,037,324)	(5,101,320)
Net cash provided (used) in operating activities	(975,769)	205,635
Cash flows provided (used) in investing activities:		
Sale of investments	250,000	430,159
Purchases of investments	(25,161)	(27,217)
Purchases of property and equipment	(253,970)	(26,793)
Net cash provided (used) in investing activities	(29,131)	376,149
Cash flows provided (used) in financing activities:		
Payment of notes payable	(11,449)	-
Increase (decrease) in line of credit	925,000	-
Payment of line of credit fees	(50,200)	-
Net cash provided (used) in financing activities	863,351	-
Net increase (decrease) in cash	(141,549)	581,784
Cash and cash equivalents at beginning of year	1,714,377	1,132,593
Cash and cash equivalents at end of year	\$ 1,572,828	\$ 1,714,377
Reconciliation of Changes in Net Assets to Net Cash		
Provided (Used) By Operating Activities:		
Changes in net assets	\$ 31,257,333	\$ (1,177,624)
Adjustments to reconcile changes in net assets to net cash		
provided (used) by operating activities:		
Depreciation and amortization	597,137	805,781
Loss on disposal of fixed assets	333,638	-
Net realized and unrealized (gains) losses on investments	(891)	(9,109)
Decrease (increase) in:		
Accounts receivable	(1,179,582)	163,030
Promises to give	(1,652,576)	188,989
Contribution receivable for rent (Note 11)	(30,608,986)	-
Prepaid expenses	(73,808)	6,069
Inventory	(64,222)	(7,896)
Other assets	(78,457)	-
Cash - board restricted	(200,000)	-
(Decrease) increase in:		
Accounts payable	408,742	173,663
Accrued expenses	321,059	65,591
Deferred rent	(10,646)	(2,153)
Deferred revenue	(24,510)	(706)
Net cash provided (used) by operating activities	\$ (975,769)	\$ 205,635

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

In 2017, FareStart financed the purchase of two vehicles totaling \$88,270.

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

FARESTART
Notes to Consolidated Financial Statements
Years Ended December 31, 2017 and 2016

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Founded in 1992, FareStart provides a community that transforms lives by empowering people experiencing barriers to achieve self-sufficiency through life skills, job training and employment in the foodservice industry.

Across our four local programs FareStart engaged 1,006 applicants, enrolled 469 and placed 317 in employment, up from 257 in 2016. Those programs include:

- 1) Adult Culinary Program combines hands-on culinary training with classroom instruction, individual case management, life skills coaching, and job placement services for adults 18 and older. The 16-week program provides the tools, training and support to put graduates on the path to employment. All wrap around support including housing, food, transportation and uniforms are provided at no cost to students.
- 2) Youth Barista Program runs in partnership with YouthCare and is built around the needs of young people 16-24 who are street-involved. This paid program teaches barista and customer service skills through classroom instruction, job-readiness training, on-the-job experience and job placement support.
- 3) Youth Culinary Program for youth 16-21 currently enrolled in Seattle Public Schools Interagency Academy. This paid program provides hands-on training focused on culinary arts, customer service, life skills, job-readiness training, on-the-job experience and job placement support, while youth earn school credit toward high school graduation.
- 4) Foodservice Apprenticeship Program for individuals 18 and older with foodservice work experience. This paid program is designed help low-wage foodservice workers develop the higher skills they need to advance in the foodservice industry and escape from poverty.

FareStart's national program, Catalyst Kitchens, engaged 55 members within its network that collectively trained 3,614 people, up 125 people from 2016. In addition to membership fees, FareStart engages in professional services consulting to other nonprofit organizations.

FareStart's overall funding model is comprised of three primary sources: earned revenue via sale of food, public contracts and philanthropy.

Over 44% of FareStart's annual unrestricted revenues are derived via direct sale of food through the following five channels:

- 1) Two restaurants in Seattle, "FareStart Restaurant" in downtown and "Maslow's by FareStart" (opened 7/24/17) in South Lake Union.
- 2) Three cafes located on Beacon Hill, Rainier Valley and the Rise by FareStart (opened 7/18/17) located in South Lake Union .
- 3) Three fast casual lunch eateries collectively called Community Table by FareStart in South Lake Union (opened 7/18/17).
- 4) Full catering services on FareStart premises or offsite.
- 5) Contract meals made and delivered daily to area shelters, schools and day care centers.

In 2017, FareStart began the Foodservice Apprenticeship program within the five eateries indicated above because of the contribution of foodservice facilities by the landlord (Note 11) as well as the Rising Higher campaign (Note 6). While material, the contributed foodservice facilities are noncash and should be considered accordingly.

FARESTART

Notes to Consolidated Financial Statements, continued Years Ended December 31, 2017 and 2016

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

FareStart also receives funds via public contracts. The most significant of which is Federal funding via USDA Supplemental Nutrition Assistance Program (“SNAP”) administered via the Department of Social and Health Services for the State of Washington. These funds require completion of a single audit (formerly “A-133”) in addition to the financial statement audit.

FareStart generates philanthropy related funding via fundraising events, major campaigns, grants and annual giving.

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 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 \$32,663,693 and \$274,500 at December 31, 2017 and 2016, 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, 2017 and 2016.

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.

FARESTART

Notes to Consolidated Financial Statements, continued Years Ended December 31, 2017 and 2016

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

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, 2017 and 2016, the allowance for doubtful accounts was \$66,523 and \$66,525, respectively.

Promises to give

Unconditional promises to give are stated at net realizable value. In accordance with financial accounting standards, unconditional promises to give are recognized as support in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. FareStart uses the allowance method to determine uncollectible unconditional promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made. No allowance was recorded as of December 31, 2017 and 2016. Promises to give – long-term are due within five 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.

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. In 2017, FareStart disposed of donated software with a carrying value of \$272,048, which is included in loss on disposition of assets on the statement of functional expenses.

FARESTART
Notes to Consolidated Financial Statements, continued
Years Ended December 31, 2017 and 2016

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

Property and equipment, continued

Property and equipment consisted of the following at December 31:

	<u>2017</u>	<u>2016</u>
Land	\$ 2,442,204	\$ 2,442,204
Building and improvements	8,235,650	8,173,343
Furniture, equipment and software	3,168,922	3,926,532
Vehicles	<u>361,214</u>	<u>266,970</u>
	14,207,990	14,809,049
Less accumulated depreciation	<u>(5,099,251)</u>	<u>(5,122,931)</u>
	<u>\$ 9,108,739</u>	<u>\$ 9,686,118</u>

Capitalized costs

Fees associated with the line of credit are recorded at cost and amortized using the straight-line method over the three year term of the line of credit. FareStart capitalized \$50,200 of loan fees in 2017 which are shown net of accumulated amortization of \$11,156 as of December 31, 2017. Future anticipated amortization is \$16,733 in 2018 and 2019 and \$5,578 in 2020.

Restricted and unrestricted support

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

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

Donated goods and services

Donated goods and use of facilities are recorded as contributions at their estimated fair values at the date of donation. In accordance with financial accounting standards, the consolidated financial statements reflect only those donated services requiring specific expertise that FareStart would otherwise need to purchase.

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

FARESTART
Notes to Consolidated Financial Statements, continued
Years Ended December 31, 2017 and 2016

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

Advertising expenses

Advertising is expensed as incurred. For the years ended December 31, 2017 and 2016, advertising expense was \$74,335 and \$121,731, respectively.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of 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.

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, 2017 and 2016.

FareStart recognizes income tax related interest in interest expense and penalties in operating expenses. During the years ended December 31, 2017 and 2016, 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, 2017 and 2016.

FARESTART

Notes to Consolidated Financial Statements, continued Years Ended December 31, 2017 and 2016

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

Reclassifications

Certain balances in the prior year financial statement have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. These reclassifications had no effect on the change in net assets.

NOTE 2 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 22, 2018, which is the date the consolidated financial statements were available to be issued.

NOTE 3 – CASH AND INVESTMENTS – BOARD RESTRICTED

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

	<u>2017</u>	<u>2016</u>
Cash	\$ 200,000	\$ -
Exchange traded funds	1,095,231	1,326,284
Money market funds	448	24
Mutual funds	321,341	314,660
	<u>\$ 1,617,020</u>	<u>\$ 1,640,968</u>

Investment income consists of dividends of \$25,187 and \$27,241 for the years ended December 31, 2017 and 2016. Changes in net realized and unrealized gains (losses) on investments are comprised of unrealized gains of \$891 and \$9,109 for the years ended December 31, 2017 and 2016.

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:

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

FARESTART

Notes to Consolidated Financial Statements, continued Years Ended December 31, 2017 and 2016

NOTE 4 - FAIR VALUE MEASUREMENTS, continued

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 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.

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

	<u>2017</u>	<u>2016</u>
Restricted cash and investments		
Board designated cash	\$ 200,000	\$ -
Board designated investments	790,398	1,024,648
Building and equipment reserve	<u>626,622</u>	<u>616,320</u>
Total restricted cash and investments	<u>\$ 1,617,020</u>	<u>\$ 1,640,968</u>

NOTE 6 – PROMISES TO GIVE

During 2017, FareStart conducted a fundraising campaign, Rising Higher, to raise funds to support the launch of a new foodservice apprenticeship program. Pledges received under the campaign are considered unconditional promises to give. Additionally, multi-year grants receivable for other programs are included in promises to give. Promises to give are reported at present value and were discounted at 4.2% and 0% as of December 31, 2017 and 2016, respectively.

FARESTART

Notes to Consolidated Financial Statements, continued Years Ended December 31, 2017 and 2016

NOTE 6 – PROMISES TO GIVE, continued

Promises to give consisted of the following at December 31:

	<u>2017</u>	<u>2016</u>
Gross promises to give, temporarily restricted	\$ 2,261,762	\$ 414,601
Less: unamortized discount	<u>(194,585)</u>	<u>-</u>
Net promises to give	<u>\$ 2,067,177</u>	<u>\$ 414,601</u>
Amounts due in:		
Less than one year	\$ 763,571	\$ 389,601
One to five years, net of discount	<u>1,303,606</u>	<u>25,000</u>
	<u>\$ 2,067,177</u>	<u>\$ 414,601</u>

NOTE 7 - LINE OF CREDIT

FareStart has a \$5,000,000 secured line of credit collateralized by FSP LLC's assets expiring on April 30, 2020. Advances on the line of credit are payable on demand and carry interest at 2.0% over the one month LIBOR rate. There were advances of \$925,000 and \$0 outstanding as of December 31, 2017 and 2016, respectively.

FareStart has a \$1,000,000 unsecured line of credit expiring on November 30, 2018. 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, 2017 and 2016.

NOTE 8 – NOTES PAYABLE

In 2017, FareStart financed the purchase of two vehicles with notes payable totaling \$88,270. The outstanding balance of the notes as of December 31, 2017 is \$76,821. The notes carry interest rates of 0% to 2.15% and will be repaid over a four year term in the years ending December 31:

2018	\$ 21,756
2019	22,029
2020	22,307
2021	<u>10,729</u>
	<u>\$ 76,821</u>

NOTE 9 – IN-KIND CONTRIBUTIONS – NON-FOOD

In-kind contributions other than food consist of the following for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Use of facilities, furniture and fixtures	\$ 31,961,125	\$ -
Services	220,347	75,657
Goods	<u>511,477</u>	<u>394,865</u>
	<u>\$ 32,692,949</u>	<u>\$ 470,522</u>

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

FARESTART

Notes to Consolidated Financial Statements, continued Years Ended December 31, 2017 and 2016

NOTE 10 – RELATED PARTY TRANSACTIONS

Board of Director Contributions

During the years ended December 31, 2017 and 2016, respectively, FareStart received \$310,345 and \$237,592 in contributions from the members of the Board of Directors. Additionally, \$160,267 and \$10,000 of promises to give are recorded as receivable from members of the Board of Directors as of December 31, 2017 and 2016.

NOTE 11 – 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:

2018	\$	20,973
2019		18,552
2020		2,906
Thereafter		<u>-</u>
	\$	<u>42,431</u>

Rent expense under these equipment leases was \$33,241 and \$31,174 for the years ended December 31, 2017 and 2016, 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.

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 leases café space under a three year lease that expired on December 31, 2017. In 2018, FareStart renewed a two-year lease for café space. Future payments under the terms of the lease include the following for the years ending December 31:

2018	\$	14,019
2019		<u>14,229</u>
	\$	<u>28,248</u>

In 2017, FareStart executed sublease agreements in which the landlord provided FareStart space to operate a new foodservice apprenticeship program 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. The agreements are for an initial five-year term with two five-year extensions at no cost to FareStart. The amount of the contributed rent, operating expenses, and use of the build-out and furniture and fixtures to be received is \$40,744,273 at December 31, 2017, which has been discounted at interest rates of 7.53% for rent and at 4.2% for other contributions.

FARESTART

Notes to Consolidated Financial Statements, continued Years Ended December 31, 2017 and 2016

NOTE 11 – LEASE COMMITMENTS, continued

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

	<u>Recognized Contribution</u>	<u>Discount Receivable (Interest Portion)</u>	<u>Total</u>
2018 \$	2,763,148	(43,007)	\$ 2,720,141
2019	2,681,980	(145,405)	2,536,575
2020	2,554,032	(245,902)	2,308,130
2021	2,593,926	(344,645)	2,249,281
2022	2,634,773	(441,780)	2,192,993
Thereafter	<u>27,516,414</u>	<u>(8,914,548)</u>	<u>18,601,866</u>
\$	<u><u>40,744,273</u></u>	<u><u>(10,135,287)</u></u>	<u><u>\$ 30,608,986</u></u>

Rent expense under these facility leases was \$1,421,806 and \$282,386 for the years ended December 31, 2017 and 2016, respectively, and is included in occupancy expense. The in-kind portion of rent expense was \$1,144,770 and \$0 for the years ended December 31, 2017 and 2016.

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

2018	\$ 279,322
2019	232,266
2020	132,384
2021	132,384
2022	132,384
Thereafter	<u>2,118,144</u>
	<u><u>\$ 3,026,884</u></u>

NOTE 12 – TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2017</u>	<u>2016</u>
Purpose restricted gifts:		
Youth culinary	\$ 176,048	\$ 151,167
Youth barista	75,000	-
Professional development	-	50,000
Corrections grant - AT&T	<u>-</u>	<u>33,333</u>
Total purpose restricted gifts	<u>251,048</u>	<u>234,500</u>
Time restricted gifts:		
Contribution receivable for rent	30,608,986	-
Contributions with payments due in future periods	<u>1,803,659</u>	<u>40,000</u>
Total time restricted gifts	<u>32,412,645</u>	<u>40,000</u>
Total restricted gifts	<u><u>\$ 32,663,693</u></u>	<u><u>\$ 274,500</u></u>

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

FARESTART

Notes to Consolidated Financial Statements, continued Years Ended December 31, 2017 and 2016

NOTE 13 – 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 \$143,637 and \$125,995 to the plan in the years ended December 31, 2017 and 2016, respectively.

NOTE 14 – ECONOMIC CONCENTRATIONS AND CONTINGENCIES

FareStart receives contract revenue from one government agency which provided 10% and 11% of FareStart's unrestricted operating revenue for the years ended December 31, 2017 and 2016, 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, 2017 and 2016, no such adjustments were made.

An individual granting organization provided 56% and 83% of restricted private grant contributions in each of the years ended December 31, 2017 and 2016, respectively. One customer composed 11% and 23% of accounts receivable as of December 31, 2017 and 2016. One donor composed 61% and 51% of promises to give as of December 31, 2017 and 2016. One landlord comprised 100% of contributions receivable for rent as of December 31, 2017.

One vendor supplied 61% and 49% of FareStart's food purchases which are included in cost of goods sold for both of the years ended December 31, 2017 and 2016.

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.

During 2017, the Organization accrued a \$30,000 contingency for legal costs and an insurance deductible related to an employment claim. The estimated damages, if any, are within the insurance coverage limit for the entity and no accrual for risk of additional potential loss is considered necessary. Resolution of the matter is expected in 2019.

NOTE 15 – SUMMARIZED CONSOLIDATING SCHEDULES FOR 2017

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	<u>\$ 38,356,031</u>	<u>7,776,915</u>	<u>1,218,101</u>	<u>\$ 47,351,047</u>
Liabilities	<u>\$ 2,903,628</u>	<u>-</u>	<u>-</u>	<u>\$ 2,903,628</u>
Net Assets	<u>35,452,403</u>	<u>7,776,915</u>	<u>1,218,101</u>	<u>44,447,419</u>
Total Net Assets and Liabilities	<u>\$ 38,356,031</u>	<u>7,776,915</u>	<u>1,218,101</u>	<u>\$ 47,351,047</u>

FARESTART

Notes to Consolidated Financial Statements, continued Years Ended December 31, 2017 and 2016

NOTE 15 – SUMMARIZED CONSOLIDATING SCHEDULES FOR 2017, continued

As reflected in the schedule below, FareStart recorded an increase in consolidated net assets of \$31,257,333, reflecting revenues in excess of expenses at FareStart of \$31,376,153, and a net decrease of \$118,820 at FSP LLC, due primarily to building depreciation expense.

	FareStart	FareStart Properties, LLC	Eliminating Entries	Consolidated Balances
Operating revenue	\$ 8,207,156	-	-	\$ 8,207,156
Cost of goods sold	2,067,160	-	-	2,067,160
Net Operating Revenue	6,139,996	-	-	6,139,996
Unrestricted Public Support and Other Revenue				
Grants, contracts and contributions	7,072,273	-	-	7,072,273
In-kind contributions - other	939,193	-	-	939,193
Special events, net of direct benefits to donors	1,524,679	-	-	1,524,679
Services and membership dues - Catalyst Kitchens	296,740	-	-	296,740
Interest income	25,187	-	-	25,187
Other revenue	60,037	132,384	(186,816)	5,605
Total Unrestricted Public Support and other revenue	9,918,109	132,384	(186,816)	9,863,677
Total Unrestricted Support and Revenue	16,058,105	132,384	(186,816)	16,003,673
Expenses:				
Wages and related expenses	10,618,674	-	-	10,618,674
Restaurant and café operating expenses	804,500	71	-	804,571
Advertising	74,335	-	-	74,335
Bank charges, bad debt and other expenses	284,981	82	-	285,063
Board and staff development	153,890	-	-	153,890
Complimentary meals	15,783	-	-	15,783
Insurance	90,800	-	-	90,800
Interest	9,624	-	-	9,624
Loss on disposition of assets	302,911	24,064	-	326,975
Miscellaneous expense	215,897	-	-	215,897
Occupancy	2,205,835	-	(132,384)	2,073,451
Professional fees	1,498,088	54,432	(54,432)	1,498,088
Program materials and meetings	6,810	-	-	6,810
Space rental	208,033	-	-	208,033
Startup expenses - Pacific Tower	769,801	-	-	769,801
Student and staff meals	102,742	-	-	102,742
Student support	722,672	-	-	722,672
Supplies, postage and copies	350,927	-	-	350,927
Transportation	67,531	-	-	67,531
Depreciation and amortization	424,582	172,555	-	597,137
Total Expenses	18,928,416	251,204	(186,816)	18,992,804
Net realized and unrealized gains (losses) on investments	891	-	-	891
Restricted revenue	34,245,573	-	-	34,245,573
Total change in net assets	\$ 31,376,153	(118,820)	-	\$ 31,257,333

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

Supplementary Financial Information

FARESTART
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2017

	Federal CFDA Number	Pass-Through Entity Identifying Number	Pass-Through Awards of Federal Expenditures
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	1612-74812	\$ 960,563 *
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	1712-15796	398,158 *
Subtotal Supplemental Nutrition Assistance Program/Cluster			1,358,721
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	1612-76236	102,098
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	1712-16245	75,589
Subtotal Pilot Projects to Reduce Dependency and Increase Work Requirements and Work Effort under SNAP			177,687
Subtotal Department of Agriculture			1,536,409
Corporation for National and Community Service			
Social Innovation Fund Pass-Through Program From REDF	94.019	03-FST-01	180,089
Total Expenditures of Federal Awards			\$ 1,716,498

* Denotes Major Program

See accompanying notes to the schedule of expenditures of federal awards

FARESTART
Schedule of Expenditures of Federal Awards, continued
Year Ended December 31, 2017

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, 2017. 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 statement of financial position as of December 31, 2017, 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 June 22, 2018.

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.

June 22, 2018
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, 2017. 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, 2017.

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2017-001. Our opinion on each major federal program is not modified with respect to these matters.

FareStart's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. FareStart's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

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

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.

June 22, 2018
Seattle, Washington

FARESTART
Schedule of Findings and Questioned Costs
Year Ended December 31, 2017

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

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, 2017

Section II – Financial Statement Findings

NONE

FARESTART
Schedule of Findings and Questioned Costs, continued
Year Ended December 31, 2017

Section III – Federal Award Findings and Questioned Costs

2017-001 Cutoff

Finding:

Internal control processes over preparation of a monthly billing to the grantor of the following program did not ensure appropriate cutoff between contract periods:

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

Federal CFDA Number: 10.561

Pass-Through Entity Identifying Number: 1712-15796

Criteria:

The Organization is responsible for the design, implementation, and maintenance of internal controls to ensure that only expenses incurred during the period of performance of a grant are billed against the grant budget.

Condition and Context:

Two charges incurred prior to the period of performance were billed to a contract.

Effect:

This deficiency in cutoff resulted in charges outside of the period of performance being inappropriately billed against the grant.

Cause:

The Organization had not designed and implemented a control to ensure appropriate cutoff for expenses billed to federal contracts.

Recommendation:

We recommend the Organization design, implement, and maintain internal controls and procedures to ensure appropriate cutoff for expenses billed to federal contracts.

Questioned Costs:

\$38.69

Management Response and Corrective Action Plan:

FareStart management has carefully reviewed the factors contributing to the inadvertent posting of \$38.69 in eligible expenses from an ineligible contract year as outlined in 2017-001 Cutoff under Section 111- Federal Award Findings and Questioned Costs.

Management has now implemented the same rigor on Federal contract cutoff timing as is in place for fiscal year cutoff timing used to carefully scrutinize expenses pre and post FareStart's internal fiscal year-end. Specifically, the organization will increase communication before and after the program year cutoff (typically September 30) to ensure this does not occur again.

Please contact me directly with any questions pertaining to this matter.

Contact Person:

Molly Hancock, VP, Programs (206) 443-1233



June 16, 2018

Finney, Neill & Company, P.S.
Certified Public Accountants
9757 Greenwood Avenue North
Seattle, WA 98103

FareStart management has carefully reviewed the factors contributing to the inadvertent posting of \$38.69 in eligible expenses from an ineligible contract year as outlined in 2017-001 Cutoff under Section III – Federal Award Findings and Questioned Costs.

Management has now implemented the same rigor on Federal contract cutoff timing as is in place for fiscal year cutoff timing used to carefully scrutinize expenses pre and post FareStart's internal fiscal year-end. Specifically, the organization will increase communication before and after the program year cutoff (typically September 30) to ensure this does not occur again.

Please contact me directly with any questions pertaining to this matter.

Sincerely,

Molly Hancock
VP, Programs

FARESTART
Schedule of Findings and Questioned Costs, continued
Year Ended December 31, 2017

Section IV – Summary Schedule of Prior Audit Findings

NONE