

FARESTART
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

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, 2020 and 2019, 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, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2021 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.

April 22, 2021
Seattle, Washington

FARESTART
Consolidated Statements of Financial Position
December 31, 2020 and 2019

<u>ASSETS</u>	<u>2020</u>	<u>2019</u>
Current Assets		
Cash and cash equivalents	\$ 9,811,466	\$ 2,621,393
Accounts receivable, net	348,304	648,516
Federal awards receivable	178,127	408,145
Promises to give - current	568,348	1,772,590
Contribution receivable for rent - current (Notes 11 & 15)	1,342,710	2,259,526
Prepaid expenses	179,015	417,041
Inventory	<u>138,176</u>	<u>139,012</u>
Total Current Assets	12,566,146	8,266,223
Investments, at fair value - board restricted	1,683,639	1,637,138
Promises to give - long-term, net	37,500	28,450
Contribution receivable for rent, net of current (Notes 11 & 15)	688,817	2,031,527
Property and equipment, net	8,307,126	8,741,921
Capitalized costs, net	<u>-</u>	<u>5,578</u>
	<u>\$ 23,283,228</u>	<u>\$ 20,710,837</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable	\$ 660,991	\$ 399,757
Accrued payroll expenses	702,346	988,570
Line of credit	1,500,000	2,266,194
Notes payable - current (Note 8)	2,473,113	-
Capital lease liability - current	57,360	41,929
Deferred revenue	<u>294,786</u>	<u>287,208</u>
Total Current Liabilities	5,688,596	3,983,658
Notes payable, net of current (Note 8)	494,305	-
Capital lease liability	58,112	61,115
Deferred rent liability	<u>11,202</u>	<u>3,189</u>
Total Liabilities	<u>6,252,215</u>	<u>4,047,962</u>
Net Assets		
Without donor restrictions	14,455,637	11,843,935
With donor restrictions	<u>2,575,376</u>	<u>4,818,940</u>
Total Net Assets	<u>17,031,013</u>	<u>16,662,875</u>
	<u>\$ 23,283,228</u>	<u>\$ 20,710,837</u>

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

FARESTART
Consolidated Statement of Activities
Year Ended December 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenue			
Food service revenue	\$ 6,353,233	-	\$ 6,353,233
In-kind contributions - food	<u>762,329</u>	<u>-</u>	<u>762,329</u>
	7,115,562	-	7,115,562
Cost of goods sold	<u>3,366,856</u>	<u>-</u>	<u>3,366,856</u>
Net Operating Revenue	<u>3,748,706</u>	<u>-</u>	<u>3,748,706</u>
Public Support and Other Revenue			
Private grants	4,354,791	3,912,950	8,267,741
Public contracts	688,440	-	688,440
Contributions - operating	6,817,791	535,700	7,353,491
In-kind contributions - non-food (Note 9)	1,813,926	-	1,813,926
Special events, net of direct benefits to donors of \$189,889	1,286,922	-	1,286,922
Services and membership dues - Catalyst Kitchens	302,752	-	302,752
Investment income and other	<u>57,715</u>	<u>-</u>	<u>57,715</u>
Total Public Support and Other Revenue	<u>15,322,337</u>	<u>4,448,650</u>	<u>19,770,987</u>
Net Assets Released from Restrictions			
Expiration of time restrictions	292,470	(292,470)	-
Satisfaction of purpose restrictions	<u>6,399,744</u>	<u>(6,399,744)</u>	<u>-</u>
Total Net Assets Released from Restrictions	<u>6,692,214</u>	<u>(6,692,214)</u>	<u>-</u>
Total Public Support, Revenue, and Other Support	<u>25,763,257</u>	<u>(2,243,564)</u>	<u>23,519,693</u>
Expenses			
Program services	17,657,468	-	17,657,468
Management and general			
FareStart Operations	3,813,148	-	3,813,148
FareStart Properties, LLC	171,756	-	171,756
Fundraising	<u>1,528,655</u>	<u>-</u>	<u>1,528,655</u>
Total Expenses	<u>23,171,027</u>	<u>-</u>	<u>23,171,027</u>
Revenue over (under) expenses	2,592,230	(2,243,564)	348,666
Net realized and unrealized gains (losses) on investments	<u>19,472</u>	<u>-</u>	<u>19,472</u>
Change in Net Assets	2,611,702	(2,243,564)	368,138
Net Assets, beginning of year	<u>11,843,935</u>	<u>4,818,940</u>	<u>16,662,875</u>
Net Assets, end of year	<u>\$ 14,455,637</u>	<u>2,575,376</u>	<u>\$ 17,031,013</u>

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

FARESTART
Consolidated Statement of Activities
Year Ended December 31, 2019

	Without <u>Donor Restrictions</u>	With <u>Donor Restrictions</u>	<u>Total</u>
Operating Revenue			
Food service revenue	\$ 10,331,493	-	\$ 10,331,493
In-kind contributions - food	168,884	-	168,884
	<u>10,500,377</u>	<u>-</u>	<u>10,500,377</u>
Cost of goods sold	<u>2,398,321</u>	<u>-</u>	<u>2,398,321</u>
Net Operating Revenue	<u>8,102,056</u>	<u>-</u>	<u>8,102,056</u>
Public Support and Other Revenue			
Private grants	3,225,479	746,450	3,971,929
Public contracts	1,815,699	-	1,815,699
Contributions - operating	2,033,882	-	2,033,882
In-kind contributions - non-food (Note 9)	921,875	-	921,875
Special events, net of direct benefits to donors of \$523,448	1,714,175	-	1,714,175
Services and membership dues - Catalyst Kitchens	403,921	-	403,921
Investment income and other	55,737	-	55,737
Total Public Support and Other Revenue	<u>10,170,768</u>	<u>746,450</u>	<u>10,917,218</u>
Net Assets Released from Restrictions			
In-kind lease cancellation (Note 15)	8,113,073	(8,113,073)	-
Expiration of time restrictions	3,642,859	(3,642,859)	-
Satisfaction of purpose restrictions	1,124,900	(1,124,900)	-
Total Net Assets Released from Restrictions	<u>12,880,832</u>	<u>(12,880,832)</u>	<u>-</u>
Total Public Support, Revenue, and Other Support	<u>31,153,656</u>	<u>(12,134,382)</u>	<u>19,019,274</u>
Expenses			
Program services	16,957,043	-	16,957,043
Management and general			
FareStart Operations	11,167,379	-	11,167,379
FareStart Properties, LLC	171,725	-	171,725
Fundraising	1,815,420	-	1,815,420
Total Expenses	<u>30,111,567</u>	<u>-</u>	<u>30,111,567</u>
Revenue over (under) expenses	1,042,089	(12,134,382)	(11,092,293)
Net realized and unrealized gains (losses) on investments	20,171	-	20,171
Change in Net Assets	1,062,260	(12,134,382)	(11,072,122)
Net Assets, beginning of year	<u>10,781,675</u>	<u>16,953,322</u>	<u>27,734,997</u>
Net Assets, end of year	<u>\$ 11,843,935</u>	<u>4,818,940</u>	<u>\$ 16,662,875</u>

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

FARESTART
Consolidated Statement of Functional Expenses
Year Ended December 31, 2020

	Food Service Training Program	Management and General		Total Management and General	Fundraising	Total All Services
		FareStart				
		FareStart	Properties, LLC			
Salaries and wages	\$ 6,870,957	1,607,881	-	1,607,881	950,922	\$ 9,429,760
Payroll taxes and benefits	1,517,798	419,531	-	419,531	158,601	2,095,930
Total wages and related expenses	8,388,755	2,027,412	-	2,027,412	1,109,523	11,525,690
Restaurant and café operating expenses:						
Linen services	80,468	-	-	-	-	80,468
Paper supplies	382,153	2,830	-	2,830	-	384,983
Repairs and maintenance	40,503	761	-	761	121	41,385
Other	297,366	67,330	-	67,330	21,533	386,229
Total restaurant and café operating expenses	800,490	70,921	-	70,921	21,654	893,065
Advertising	2,658	1,178	-	1,178	10,675	14,511
Bad debt and other losses	-	369,579	-	369,579	-	369,579
Bank charges	49,358	(13,588)	30	(13,558)	95,027	130,827
Board and staff development	43,352	18,475	-	18,475	2,202	64,029
Interest	-	54,219	-	54,219	-	54,219
Occupancy	2,971,407	84,979	-	84,979	41,347	3,097,733
Other expense	199,933	204,448	-	204,448	79,700	484,081
Professional fees	2,703,588	807,804	-	807,804	115,075	3,626,467
Re-grant expense	1,703,850	-	-	-	-	1,703,850
Space rental	11,295	-	-	-	2,776	14,071
Student support	360,310	2,178	-	2,178	-	362,488
Supplies, postage and copies	93,623	158,484	-	158,484	38,793	290,900
Depreciation and amortization	328,849	27,059	171,726	198,785	11,883	539,517
Total expenses as shown on the Statement of Activities	17,657,468	3,813,148	171,756	3,984,904	1,528,655	23,171,027
Cost of goods sold:						
Food purchases and other	2,604,527	-	-	-	-	2,604,527
In-kind donations of food	762,226	103	-	103	-	762,329
Total cost of goods sold	3,366,753	103	-	103	-	3,366,856
Special event expenses included with support and revenue on the statement of activities	-	-	-	-	189,889	189,889
Total	\$ 21,024,221	3,813,251	171,756	3,985,007	1,718,544	\$ 26,727,772

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

FARESTART
Consolidated Statement of Functional Expenses
Year Ended December 31, 2019

	Food Service Training Program	Management and General FareStart		Total Management and General	Fundraising	Total All Services
		FareStart	Properties, LLC	General		
Salaries and wages	\$ 8,301,394	1,732,112	-	1,732,112	950,308	\$ 10,983,814
Payroll taxes and benefits	<u>1,741,909</u>	<u>335,182</u>	<u>-</u>	<u>335,182</u>	<u>158,551</u>	<u>2,235,642</u>
Total wages and related expenses	10,043,303	2,067,294	-	2,067,294	1,108,859	13,219,456
Restaurant and café operating expenses:						
Linen services	136,029	222	-	222	-	136,251
Paper supplies	136,512	763	-	763	-	137,275
Repairs and maintenance	69,889	1,469	-	1,469	148	71,506
Other	<u>473,772</u>	<u>(31,623)</u>	<u>-</u>	<u>(31,623)</u>	<u>43,055</u>	<u>485,204</u>
Total restaurant and café operating expenses	816,202	(29,169)	-	(29,169)	43,203	830,236
Advertising	31,878	-	-	-	3,063	34,941
Bad debt and other losses	14,495	4,655	-	4,655	87,103	106,253
Bank charges	186,104	19,037	-	19,037	67,237	272,378
Board and staff development	111,868	45,772	-	45,772	10,513	168,153
Interest	-	81,092	-	81,092	-	81,092
Loss on in-kind lease cancellation (Note 15)	-	8,113,073	-	8,113,073	-	8,113,073
Occupancy	3,219,362	80,390	-	80,390	46,897	3,346,649
Other expense	348,298	133,509	-	133,509	94,844	576,651
Professional fees	891,474	569,306	-	569,306	144,056	1,604,836
Space rental	114,251	-	-	-	140,349	254,600
Student support	715,297	1,601	-	1,601	189	717,087
Supplies, postage and copies	128,315	39,740	-	39,740	54,100	222,155
Depreciation and amortization	<u>336,196</u>	<u>41,079</u>	<u>171,725</u>	<u>212,804</u>	<u>15,007</u>	<u>564,007</u>
Total expenses as shown on the Statement of Activities	<u>16,957,043</u>	<u>11,167,379</u>	<u>171,725</u>	<u>11,339,104</u>	<u>1,815,420</u>	<u>30,111,567</u>
Cost of goods sold:						
Food purchases and other	2,229,437	-	-	-	-	2,229,437
In-kind donations of food	<u>167,767</u>	<u>310</u>	<u>-</u>	<u>310</u>	<u>807</u>	<u>168,884</u>
Total cost of goods sold	<u>2,397,204</u>	<u>310</u>	<u>-</u>	<u>310</u>	<u>807</u>	<u>2,398,321</u>
Special event expenses included with support and revenue on the statement of activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>523,448</u>	<u>523,448</u>
Total	<u>\$ 19,354,247</u>	<u>11,167,689</u>	<u>171,725</u>	<u>11,339,414</u>	<u>2,339,675</u>	<u>\$ 33,033,336</u>

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

FARESTART
Consolidated Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	2020	2019
Cash flows provided (used) in operating activities:		
Cash received from:		
Public contracts	\$ 918,458	\$ 1,841,693
Private grants	8,267,741	3,918,650
Donors	9,772,325	4,107,339
Sales to the public	6,653,445	10,370,255
Services and membership dues - Catalyst Kitchens	310,330	403,921
Interest, dividends and other	57,715	55,737
Cash paid for:		
Personnel	(11,811,914)	(13,123,852)
Services and supplies	(9,011,287)	(7,418,298)
Interest	(54,219)	(81,092)
Net cash provided (used) in operating activities	5,102,594	74,353
Cash flows provided (used) in investing activities:		
Sale of investments	-	150,000
Purchases of investments	(27,029)	(118,084)
Purchases of property and equipment	(19,878)	(425,222)
Net cash provided (used) in investing activities	(46,907)	(393,306)
Cash flows provided (used) in financing activities:		
Payment of capital lease liability	(66,838)	(34,694)
Proceeds from notes payable	2,967,418	-
Increase (decrease) in line of credit	(766,194)	1,900,000
Net cash provided (used) in financing activities	2,134,386	1,865,306
Net increase (decrease) in cash and cash equivalents	7,190,073	1,546,353
Cash and cash equivalents at beginning of year	2,621,393	1,075,040
Cash and cash equivalents at end of year	\$ 9,811,466	\$ 2,621,393

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

FARESTART
Consolidated Statements of Cash Flows, continued
Years Ended December 31, 2020 and 2019

Reconciliation of Changes in Net Assets to Net Cash	2020	2019
Provided (Used) By Operating Activities:		
Changes in net assets	\$ 368,138	\$ (11,072,122)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	539,517	564,007
Net realized and unrealized (gains) losses on investments	(19,472)	(20,171)
Contributed equipment, goods and services capitalized	-	(97,517)
Decrease (increase) in:		
Accounts receivable	300,212	38,762
Federal awards receivable	230,018	25,994
Promises to give	1,195,192	359,282
Contribution receivable for rent (Note 14)	2,259,526	10,555,431
Prepaid expenses	238,026	(38,083)
Inventory	836	7,409
Other assets	-	32,332
(Decrease) increase in:		
Accounts payable	261,234	(311,085)
Accrued expenses	(286,224)	95,604
Deferred rent	8,013	(12,211)
Deferred revenue	7,578	(53,279)
Net cash provided (used) by operating activities	\$ 5,102,594	\$ 74,353

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

In 2020, FareStart financed the purchase of IT Equipment totaling \$79,266. In 2019, FareStart financed the purchase of two vehicles totaling \$81,693 and capitalized in-kind donations of goods and services totaling \$97,517.

FARESTART

Notes to Consolidated Financial Statements Years Ended December 31, 2020 and 2019

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Founded in 1992, FareStart provides a community that transforms lives, disrupts poverty, and nourishes communities through food, life skills, and job training.

In 2020, FareStart adopted an Anti-Racist statement in which it defines anti-racism as the clear acknowledgement that racism permeates organizations, communities, and industries, including our own and we recognize that we have a duty to be vigilant in addressing and confronting racism in how we make decisions, show up in our communities, build business practices and policies, and engage in intentional partnerships and philanthropic endeavors to fulfill our mission and vision.

FareStart also acknowledges that it is located on the ancestral lands of the Coast Salish Peoples, and specifically stands on the lands of the First Peoples of Seattle, the Duwamish. FareStart honors with gratitude the land itself and the Duwamish Peoples who have stewarded it, past and present.

Across our four local programs FareStart engaged 197 applicants, enrolled 140 and facilitated 148 job placements in 2020. Those programs include:

- 1) Adult Culinary Program, which 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, uniforms, mental health, and recovery counseling is provided at no cost to students. In-person training was suspended from March until August 2020, and then resumed as virtual-only.
- 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. In-person training was suspended from March until October 2020, and then resumed as virtual-only.
- 3) Youth Culinary Program for youth 16-21 currently enrolled in Seattle Public Schools Interagency Academy High School and Nova High School. 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 the youth earn school credit toward high school graduation. In-person training was suspended from March until November 2020, and then resumed as virtual-only.
- 4) Foodservice Apprenticeship Program for individuals 18 and older with foodservice work experience. This paid program is designed to help low-wage foodservice workers develop the higher skills they need to advance in the foodservice industry and earn better living wages.

FareStart administers a national member network, Catalyst Kitchens, that supported 96 member organizations during 2020, ending the year with 82 members, an 81% renewal rate for membership, and a net increase of 1 member (a 1.2% increase in organizations compared to 2019). FareStart redistributed approximately \$1.7 million in grant funds to support emergency meal production to 52 eligible members, representing 65% of the Catalyst Kitchens network.

FARESTART

Notes to Consolidated Financial Statements, continued
Years Ended December 31, 2020 and 2019

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

FareStart also engages in technical assistance and training for nonprofit organizations across the country. In 2020, our consultancy supported 66 unique nonprofit organizations. The consulting team prepared 3 new programs to launch and 9 existing programs to scale. In addition, training was provided to 52 unique organizations and 94 individuals in a virtual format.

The COVID-19 crisis materially impacted FareStart's overall funding model in 2020. Although revenue was generated by all traditional activities including social enterprise, Catalyst Kitchens membership and consulting, public contracts and philanthropy, the amounts and timing were significantly different in 2020.

FareStart's traditional restaurant, café, catering and contract meals revenues began the year as expected but were all closed down by order of the Governor on March 16th, 2020. FareStart's contract meal service to vulnerable populations was able to continue as an essential service and expanded to address the growing need for hunger relief as the region addressed its homeless population in new ways by opening more quarantine sites along with permanent supportive housing locations using hotels. FareStart redeployed all culinary staff into daily emergency meal production and distribution resulting in 1,938,046 meals produced as of December 31, 2020. Primary partner sites receiving meals included Downtown Emergency Services Center, Plymouth Housing, and the Seattle Public School free and reduced lunch distribution locations. Additionally, the Seattle Housing Authority and King County Housing Authority have distributed these meals to their clients.

FareStart 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 in addition to the financial statement audit. The COVID-19 crisis led to a material reduction in allowable billing as all student programming was put on hold until later in the year as noted earlier.

FareStart typically generates philanthropy-related funding via fundraising events, major campaigns, grants and annual giving. In 2020, the onset of the COVID-19 crisis coupled with FareStart's vigorous efforts to address food security led to an unprecedented level of financial support by the community.

FareStart applied for and received two SBA loans relating to the COVID-19 crisis in 2020. The first was the SBA Economic Impact Disaster Loan in the amount of \$500,000. Additionally, an SBA Payroll Protection Program Loan for \$2,467,418 was received.

Principles of consolidation

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

FARESTART

Notes to Consolidated Financial Statements, continued
Years Ended December 31, 2020 and 2019

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of presentation

The accompanying consolidated financial statements have been prepared in conformity with the disclosure and display requirements of the Presentation of Financial Statements for Not-for-Profit Entities Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification. This Topic establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into two net asset classes according to donor imposed restrictions: net assets without donor restrictions and net assets with donor restrictions. 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 \$2,728,540 and \$4,818,940 at December 31, 2020 and 2019, 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, 2020 and 2019.

Basis of accounting

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Cash and cash equivalents

Cash and cash equivalents consist of general checking, savings, and money market accounts. FareStart maintains its cash and cash equivalents in bank accounts that may exceed federally insured limits at times during the year. FareStart has not experienced any losses in these accounts, and management does not believe it is exposed to any significant credit risk.

Investments

Investments consist of investments in mutual funds and exchange traded funds which are classified as available-for-sale securities carried at fair value. Net unrealized investment gains (losses) related to available-for-sale securities are recorded in the total change in net assets. Interest and dividends earned are reported in interest and other income. FareStart uses quoted market prices or public market information to determine the fair value of its investments.

Accounts receivable

Accounts receivable includes amounts owing from contract meal sales, Catalyst Kitchens and catering 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, 2020 and 2019, the allowance for doubtful accounts was \$60,389 and \$75,076, 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 deferred revenue in the accompanying consolidated statements of financial position.

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

FARESTART

Notes to Consolidated Financial Statements, continued Years Ended December 31, 2020 and 2019

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. No allowance was recorded as of December 31, 2020 and 2019. 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.

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 \$533,939 and \$547,273 for the years ended December 31, 2020 and 2019.

Property and equipment consisted of the following at December 31:

	<u>2020</u>	<u>2019</u>
Land	\$ 2,442,204	\$ 2,442,204
Building and improvements	8,474,358	8,474,358
Furniture, equipment and software	3,256,581	3,595,812
Vehicles	438,655	442,907
	<u>14,611,798</u>	<u>14,955,281</u>
Less accumulated depreciation	<u>(6,304,672)</u>	<u>(6,213,360)</u>
	<u>\$ 8,307,126</u>	<u>\$ 8,741,921</u>

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

FARESTART

Notes to Consolidated Financial Statements, continued
Years Ended December 31, 2020 and 2019

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

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 \$50,200 and \$44,622 as of December 31, 2020 and 2019.

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. Membership dues, which are nonrefundable, are comprised of an exchange element based on the value of benefits provided. The Organization recognizes the exchange portion of membership dues over the membership period, and the contribution portion immediately. 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 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, 2020 and 2019

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

Advertising expenses

Advertising is expensed as incurred. For the years ended December 31, 2020 and 2019, advertising expense was \$14,511 and \$34,941, 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. 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, 2020 and 2019.

FareStart recognizes income tax related interest in interest expense and penalties in operating expenses. During the years ended December 31, 2020 and 2019, FareStart recognized no income tax related interest or penalties.

FARESTART

Notes to Consolidated Financial Statements, continued Years Ended December 31, 2020 and 2019

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

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, 2020 and 2019.

Reclassifications

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

NOTE 2 – SUBSEQUENT EVENTS

In 2021, FareStart amended the term of its \$2,000,000 secured line of credit, extending its expiration from March 31, 2021 to May 31, 2021.

Subsequent events have been evaluated through April 22, 2021, 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:

	<u>2020</u>	<u>2019</u>
Operating cash	\$ 9,782,667	\$ 2,541,370
Bank controlled cash	28,799	80,023
Accounts receivable, net	348,304	648,516
Federal awards receivable	178,127	408,145
Promises to give - current	568,348	1,772,590
Board designated reserve	1,146,775	1,126,929
FareStart property reserve	<u>536,864</u>	<u>510,209</u>
Subtotal	12,589,884	7,087,782
Less amounts not available to be used within one year:		
Net assets with donor restrictions	543,849	527,887
Net assets with purpose restrictions to be met in less than a year	<u>(506,349)</u>	<u>(479,437)</u>
	<u>37,500</u>	<u>48,450</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 12,552,384</u>	<u>\$ 7,039,332</u>

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

FARESTART

Notes to Consolidated Financial Statements, continued Years Ended December 31, 2020 and 2019

NOTE 3 – LIQUIDITY, continued

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 closer to \$2.0 - \$3.0 million, which was determined based on management's judgement regarding the appropriate amount of funds to set aside in addition to working capital. The reserve funds are held in lower-risk investments which prioritize principal preservation over growth.

In the event of an unanticipated liquidity need, the institution could draw upon an unsecured line of credit in the amount of \$1 million or secured line of credit of \$2 million as discussed in Note 7.

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:

	<u>2020</u>	<u>2019</u>
Exchange traded funds	\$ 1,146,748	\$ 1,126,902
Money market funds	2,506	2,505
Mutual funds	<u>534,385</u>	<u>507,731</u>
	<u>\$ 1,683,639</u>	<u>\$ 1,637,138</u>

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 dividends of \$28,266 and \$44,812 for the years ended December 31, 2020 and 2019. Changes in net unrealized gains (losses) on investments are comprised of unrealized gains (losses) of \$19,472 and \$20,171 for the years ended December 31, 2020 and 2019. 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.

FARESTART

Notes to Consolidated Financial Statements, continued
Years Ended December 31, 2020 and 2019

NOTE 5 - FAIR VALUE MEASUREMENTS, continued

Level 2: Inputs to the valuation methodology include:

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

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

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

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

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

Investments in exchange traded funds, money market funds and mutual funds: Valued at the 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 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 0% and 4.51% as of December 31, 2020 and 2019, respectively.

Promises to give consisted of the following at December 31:

	<u>2020</u>	<u>2019</u>
Gross promises to give, temporarily restricted	\$ 605,848	\$ 1,801,040
Less: unamortized discount	-	-
Net promises to give	<u>\$ 605,848</u>	<u>\$ 1,801,040</u>
Amounts due in:		
Less than one year	\$ 568,348	\$ 1,772,590
One to five years, net of discount	<u>37,500</u>	<u>28,450</u>
	<u>\$ 605,848</u>	<u>\$ 1,801,040</u>

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

FARESTART

Notes to Consolidated Financial Statements, continued
Years Ended December 31, 2020 and 2019

NOTE 7 - LINE OF CREDIT

FareStart has a \$2,000,000 secured line of credit collateralized by FSP LLC's assets expiring on May 31, 2021. 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 \$1,500,000 and \$1,816,194 outstanding as of December 31, 2020 and 2019, respectively.

FareStart has a \$1,000,000 unsecured line of credit expiring on July 31, 2021. Advances on the line of credit are payable on demand and carry interest at 3.2% over the one month LIBOR rate. There were advances of \$0 and \$450,000 outstanding as of December 31, 2020 and 2019.

NOTE 8 – NOTES PAYABLE

Payroll Protection Program Loan

On April 23, 2020, FareStart received a loan in the amount of \$2,467,418 under the Payroll Protection Program (PPP Loan) administered by the Small Business Administration (SBA). The loan accrues interest at an annual rate of 1% and has an original maturity date of two years which can be extended to five years by mutual agreement of FareStart and the lender. Payments are deferred during the Deferred Period. The Deferral Period is the period beginning on the date of this note, April 23, 2020, and ending 10 months after the last day of the covered period (Deferral Expiration Date). Any amounts not forgiven under the Program will be payable in equal installments of principal plus any interest owned on the payment date from the Deferral Expiration Date through the Maturity Date. Additionally, any accrued interest that is not forgiven under the Program will be due on the First Payment Date, which is the 15th of the month following the month in which the Deferral Expiration Date occurs.

Under the requirements of the CARES Act, as amended by the PPP Flexibility Act and Consolidated Appropriations Act, 2021, proceeds may only be used for FareStart's eligible payroll costs (with salary capped at \$100,000 on an annualized basis for each employee), or other eligible costs related to rent, mortgage interest, utilities, covered operation expenditures, covered property damage, covered supplier costs, and covered worker protection expenditures, in each case paid during the 24-week period following disbursement. The PPP Loan may be fully forgiven if (i) proceeds are used to pay eligible payroll costs or other eligible costs and (ii) full-time employee headcount and salaries are either maintained during the 24-week period following disbursement or restored by December 31, 2020. If not maintained or restored, any forgiveness of the PPP Loan would be reduced in accordance with the regulations that were issued by the SBA. All the proceeds of the PPP loan were used by FareStart to pay eligible payroll costs and FareStart maintained its headcount and otherwise complied with the terms of the PPP Loan.

While FareStart believes that it has acted in compliance with the program and will seek forgiveness of the PPP Loan, no assurance can be provided that FareStart will obtain forgiveness of the PPP Loan in whole or in part. The balance on this PPP loan was \$2,467,418 at December 31, 2020, and it has been classified as current as the application for forgiveness was submitted prior to December 31, 2020.

FARESTART

Notes to Consolidated Financial Statements, continued Years Ended December 31, 2020 and 2019

NOTE 8 – NOTES PAYABLE, continued

Economic Injury Disaster Loan

In 2020, FareStart entered into an Economic Injury Disaster Loan administered by the Small Business Administration in the amount of \$500,000. The loan accrues interest at the rate of 2.75% per annum, including monthly installment payment of \$2,136 beginning 12 months from the date of this loan. The loan balance outstanding was \$500,000 and \$0 at December 31, 2020 and 2019, respectively.

Future maturities of total notes payable are as follows for the years ending December 31:

2021	\$	2,473,113
2022		11,921
2023		12,253
2024		12,595
2025		12,945
Thereafter		<u>444,591</u>
	\$	<u>2,967,418</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>2020</u>	<u>2019</u>
Use of facilities, furniture and fixtures	\$ 63,280	\$ 37,423
Services	1,528,966	318,260
Goods	<u>221,680</u>	<u>566,192</u>
	<u>\$ 1,813,926</u>	<u>\$ 921,875</u>

NOTE 10 – RELATED PARTY TRANSACTIONS

Board of Director Contributions

During the years ended December 31, 2020 and 2019, respectively, FareStart received \$235,658 and \$311,985 in contributions from the members of the Board of Directors. Additionally, \$57,845 and \$111,646 of promises to give are recorded as receivable from members of the Board of Directors as of December 31, 2020 and 2019.

FARESTART

Notes to Consolidated Financial Statements, continued
Years Ended December 31, 2020 and 2019

NOTE 11 – LEASE COMMITMENTS

Capital Leases

FareStart has financed the purchase of vehicles and IT equipment of \$249,266 and \$177,149 as of December 31, 2020 and 2019, respectively. Accumulated amortization of \$102,930 and \$56,930 was recorded at December 31, 2020 and 2019, respectively. The outstanding balance of the leases as of December 31, 2020 and 2019 was \$115,472 and \$103,044. The leases carry interest rates of 0% to 4.75% and will be repaid over lease term in the years ending December 31:

2021	\$	57,360
2022		45,512
2023		12,600
	\$	<u>115,472</u>

Operating Leases

FareStart leases equipment under non-cancelable operating lease agreements that terminate between 2020 and 2024. Future monthly payments are \$2,845. Scheduled lease payments for the years ending December 31, are as follows:

2021	\$	34,140
2022		34,140
2023		34,140
2024		2,845
Thereafter		<u>-</u>
	\$	<u>105,265</u>

Rent expense under these equipment leases was \$37,046 and \$49,847 for the years ended December 31, 2020 and 2019, 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 exercised the first option to renew in 2019. FareStart leased café space under a lease that expired on December 31, 2019.

FARESTART

Notes to Consolidated Financial Statements, continued Years Ended December 31, 2020 and 2019

NOTE 11 – LEASE COMMITMENTS, continued

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

2021	\$	293,009
2022		297,818
2023		302,775
2024		248,247
2025		132,384
Thereafter		<u>1,720,993</u>
	\$	<u><u>2,955,226</u></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. 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. The amount of the contributed rent, operating expenses, and use of the build-out and furniture and fixtures to be received is \$2,031,527 and \$4,291,053 at December 31, 2020 and 2019. Discount interest rates of 7.53% for rent and at 4.2% for other contributions were used in the valuation of these contributions. See further discussion at Note 15.

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

		<u>Recognized Contribution</u>		<u>Discount Receivable (Interest Portion)</u>		<u>Total</u>
2021	\$	1,392,828		(50,118)	\$	1,342,710
2022		83,097		(11,879)		71,218
2023		84,222		(14,451)		69,771
2024		85,373		(16,987)		68,386
2025		86,552		(19,491)		67,061
Thereafter		<u>601,146</u>		<u>(188,765)</u>		<u>412,381</u>
	\$	<u><u>2,333,218</u></u>		<u><u>(301,691)</u></u>	\$	<u><u>2,031,527</u></u>

Rent expense under these facility leases was \$2,768,237 and \$2,782,580 for the years ended December 31, 2020 and 2019, respectively, and is included in occupancy expense. The in-kind portion of rent expense was \$2,322,806 and \$2,479,781 for the years ended December 31, 2020 and 2019.

FARESTART

Notes to Consolidated Financial Statements, continued
Years Ended December 31, 2020 and 2019

NOTE 12 – NET ASSETS WITH DONOR RESTRICTIONS

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

Purpose restricted gifts:	<u>2020</u>	<u>2019</u>
Youth culinary	\$ -	\$ 11,667
Apprenticeship	-	93,750
Ending Homelessness	-	130,000
COVID-19 Response	541,849	-
Catalyst Kitchen	2,000	-
Total purpose restricted gifts	<u>543,849</u>	<u>235,417</u>
Time restricted gifts:		
Contribution receivable for rent	2,031,527	4,291,053
Contributions with payments due in future periods	-	292,470
Total time restricted gifts	<u>2,031,527</u>	<u>4,583,523</u>
Total restricted gifts	<u>\$ 2,575,376</u>	<u>\$ 4,818,940</u>

NOTE 13 – REVENUE FROM CONTRACTS WITH CUSTOMERS

FareStart recognized revenue from contract from customers associated with Catalyst Kitchens memberships of \$163,634 and \$157,840 for the years ended December 31, 2020 and 2019, respectively. These revenues are included in services and membership dues – Catalyst Kitchens on the consolidated statements of activities. Annual membership provides access to resources during the membership period. The following table provides information about significant changes in the contract liabilities included in deferred revenue on the consolidated statements of financial position for the years ended December 31:

	<u>2020</u>	<u>2019</u>
Deferred membership dues, beginning of year	\$ 67,863	\$ 56,875
Revenue recognized that was included in deferred membership dues at the beginning of the year	(67,863)	(56,875)
Increase in deferred revenue due to cash received during the period	<u>83,563</u>	<u>67,863</u>
Deferred membership dues, end of year	<u>\$ 83,563</u>	<u>\$ 67,863</u>

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 \$226,584 and \$254,240 to the plan in the years ended December 31, 2020 and 2019, respectively.

FARESTART

Notes to Consolidated Financial Statements, continued Years Ended December 31, 2020 and 2019

NOTE 15 – FACILITY CLOSURE

In 2019, FareStart management, in conjunction with its landlord, determined that as a result of continued operating losses it needed to close Maslow's Restaurant in South Lake Union while retaining access to the back-of-house kitchen facility. This decision followed a similar one made in 2018 to close Community Table. Collectively, the closures represent approximately 75% of the space donated to FareStart by the landlord in 2017. FareStart intends to continue to operate the café space along with event catering for the landlord.

The original executed lease provided for a five-year base term with two automatic five-year renewal options. FareStart initially recorded the associated in-kind contribution by the landlord over this fifteen-year term. Management has reevaluated the lease term for the back-of-house kitchen and shortened the in-kind recognition timing horizon to align with the current agreement between the parties of 18 months. The café remains on the original in-kind contribution time horizon. Future in-kind recognition will continue to be recorded consistent with any renewal options exercised.

As a result of the above actions in 2019, FareStart reduced the in-kind contribution receivable by \$12,552,307, the discount by \$4,439,234 and recorded a loss of \$8,113,073. FareStart also recorded a liability of \$58,289 of costs related to termination benefits for employees.

Upon expiration of the lease for the 2100 Café in early 2020, FareStart closed the café and moved its Youth Barista program to the Rise location.

NOTE 16 – ECONOMIC CONCENTRATIONS AND CONTINGENCIES

FareStart receives contract revenue from one government agency which provided 4% and 15% of FareStart's unrestricted public support and other revenue for the years ended December 31, 2020 and 2019, 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, 2020 and 2019, no such adjustments were made.

An individual granting organization provided 11% and 37% of restricted private grant contributions in each of the years ended December 31, 2020 and 2019, respectively. One federal award funder composed 57% and 95% of federal awards receivable as of December 31, 2020 and 2019. One donor composed 52% and 62% of promises to give as of December 31, 2020 and 2019. One landlord comprised 100% of contributions receivable for rent as of both December 31, 2020 and 2019.

One vendor supplied 71% and 47% of FareStart's food purchases which are included in cost of goods sold for both of the years ended December 31, 2020 and 2019.

FARESTART

Notes to Consolidated Financial Statements, continued
Years Ended December 31, 2020 and 2019

NOTE 16 – ECONOMIC CONCENTRATIONS AND CONTINGENCIES, continued

FareStart invests primarily in exchange traded funds and money market funds, which may subject it to market risk. FareStart owns one property located in Seattle, Washington and operates at two other locations in Seattle, Washington. Future operations could be affected by changes in economic or other conditions in that geographical area.

NOTE 17 – IMPACT OF COVID-19 PANDEMIC

On March 11, 2020, the World Health Organization characterized an outbreak of a novel strain of coronavirus (COVID-19) as a pandemic. In addition, multiple jurisdictions in the U.S. have declared a state of emergency. It is anticipated that these impacts will continue for some time. In response to the pandemic, FareStart's operations and training programs have been modified as described in Note 1. Changes to the operating environment may increase certain operating costs or disrupt revenue streams. The future effects and potential financial impacts of these events are unknown.

NOTE 18 – SUMMARIZED CONSOLIDATING SCHEDULES FOR 2020

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	\$ 14,580,785	7,484,341	1,218,102	\$ 23,283,228
Liabilities	\$ 6,252,215	-	-	\$ 6,252,215
Net Assets	8,328,570	7,484,341	1,218,102	17,031,013
Total Net Assets and Liabilities	\$ 14,580,785	7,484,341	1,218,102	\$ 23,283,228

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

FARESTART

Notes to Consolidated Financial Statements, continued Years Ended December 31, 2020 and 2019

NOTE 18 – SUMMARIZED CONSOLIDATING SCHEDULES FOR 2020, continued

As reflected in the schedule below, FareStart recorded a decrease in consolidated net assets of \$368,138, reflecting revenues in excess of expenses at FareStart of \$472,974, and a net decrease of \$104,836 at FSP LLC, due primarily to building depreciation expense.

	FareStart	FareStart Properties, LLC	Eliminating Entries	Consolidated Balances
Operating revenue	\$ 7,115,562	-	-	\$ 7,115,562
Cost of goods sold	3,366,856	-	-	3,366,856
Net Operating Revenue	<u>3,748,706</u>	<u>-</u>	<u>-</u>	<u>3,748,706</u>
Unrestricted Public Support and Other Revenue				
Grants, contracts and contributions	11,861,022	-	-	11,861,022
In-kind contributions - other	1,813,926	-	-	1,813,926
Special events, net of direct benefits to donors	1,286,922	-	-	1,286,922
Services and membership dues - Catalyst Kitchens	302,752	-	-	302,752
Interest income and other	112,147	121,352	(175,784)	57,715
Total Unrestricted Public Support and other revenue	<u>15,376,769</u>	<u>121,352</u>	<u>(175,784)</u>	<u>15,322,337</u>
Total Unrestricted Support and Revenue	<u>19,125,475</u>	<u>121,352</u>	<u>(175,784)</u>	<u>19,071,043</u>
Expenses:				
Wages and related expenses	11,525,690	-	-	11,525,690
Restaurant and café operating expenses	893,065	-	-	893,065
Advertising	14,511	-	-	14,511
Bank charges, bad debt and other expenses	500,376	30	-	500,406
Board and staff development	64,029	-	-	64,029
Interest	54,219	-	-	54,219
Occupancy	3,219,085	-	(121,352)	3,097,733
Other expense	484,081	-	-	484,081
Professional fees	3,626,467	54,432	(54,432)	3,626,467
Re-grant expense	1,703,850	-	-	1,703,850
Space rental	14,071	-	-	14,071
Student support	362,488	-	-	362,488
Supplies, postage and copies	290,900	-	-	290,900
Depreciation and amortization	367,791	171,726	-	539,517
Total Expenses	<u>23,120,623</u>	<u>226,188</u>	<u>(175,784)</u>	<u>23,171,027</u>
Net realized and unrealized gains (losses) on investments	19,472	-	-	19,472
Restricted revenue	4,448,650	-	-	4,448,650
Total change in net assets	<u>\$ 472,974</u>	<u>(104,836)</u>	<u>-</u>	<u>\$ 368,138</u>

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

Supplementary Financial Information

FARESTART
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2020

	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures		
			Pass-Through Awards of Federal Expenditures	Loan Balance Outstanding	Total
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	1912-63589	\$ 559,758	-	559,758
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	2012-94204	112,929	-	112,929
Subtotal Supplemental Nutrition Assistance Program/Cluster			672,687	-	672,687
Subtotal Department of Agriculture			672,687	-	672,687
U.S. Small Business Administration:					
Disaster Assistance Loans					
COVID-19 Economic Injury Disaster Loan SBA Loan #3192217202					
	59.008		-	500,000	500,000
Total Expenditures of Federal Awards			\$ 672,687	500,000	1,172,687

* 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, 2020

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, 2020. 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.

NOTE 4 – LOAN BALANCE

FareStart has the following loan outstanding at December 31, 2020:

CFDA Number	Pass-through entity	Loan Balance
59.008	N/A	\$ 500,000

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, 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 22, 2021.

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) as a basis for designing 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. Accordingly, we do not express an opinion on the effectiveness of FareStart's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether FareStart's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Finney, Hill & Company, P.S.

April 22, 2021
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, 2020. 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, 2020.

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

Report on Internal Control Over Compliance

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

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

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

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

Finney, Hill & Company, P.S.

April 22, 2021
Seattle, Washington

FARESTART
 Schedule of Findings and Questioned Costs
 Year Ended December 31, 2020

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued Unmodified
 Internal control over financial reporting:
 • Material weakness(es) identified? _____ yes X no
 • Significant deficiency(ies) identified that are
 not considered to be material weaknesses? _____ yes X none reported
 Noncompliance material to financial
 statements noted? _____ yes X no

Federal Awards

Internal control over major programs:
 • Material weakness(es) identified? _____ yes X no
 • Significant deficiency(ies) identified that are
 not considered to be material weaknesses? _____ yes X none reported

Type of auditors’ report issued on compliance
 for major programs Unmodified

Any audit findings disclosed that are required
 to be reported in accordance with the
 Uniform Guidance? _____ yes X no

Identification of major programs:

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

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

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

FARESTART
Schedule of Findings and Questioned Costs, continued
Year Ended December 31, 2020

Section II – Financial Statement Findings

NONE

Section III – Federal Award Findings and Questioned Costs

NONE

FARESTART
Schedule of Findings and Questioned Costs, continued
Year Ended December 31, 2020

Section IV – Summary Schedule of Prior Audit Findings

None