FareStart

Consolidated Financial Statements

December 31, 2018 and 2017

FARESTART

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

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, 2018 and 2017, 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.

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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, 2018 and 2017, 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 26, 2019 on our consideration of FareStart's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of FareStart's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering FareStart's internal control over financial reporting and compliance.

Finney, Neill & Company, P.S.

April 26, 2019
Seattle, Washington

FareStart

Consolidated Statements of Financial Position

December 31, 2018 and 2017

ASSETS	2018	2017
Current Assets		
Cash and cash equivalents	$ 1,075,040	$ 1,572,828
Accounts receivable, net	687,278	1,004,153
Federal awards receivable	434,139	765,083
Promises to give - current	1,178,063	763,571
Contribution receivable for rent - current (Notes 11 & 14)	1,220,713	2,720,141
Prepaid expenses	378,958	354,444
Inventory	146,421	135,116
Other assets	32,332	78,457
Total Current Assets	5,152,944	7,393,793
Cash and investments, at fair value - board restricted	1,648,883	1,617,020
Promises to give - long-term, net	982,259	1,303,606
Contribution receivable for rent, net of current (Notes 11 & 14)	13,625,771	27,888,845
Property and equipment, net	8,684,762	9,108,739
Capitalized costs, net	22,312	39,044
	$ 30,116,931	$ 47,351,047

LIABILITIES AND NET ASSETS	2018	2017
Current Liabilities		
Accounts payable	$ 710,842	$ 789,798
Accrued payroll expenses	892,966	795,111
Line of credit	366,194	925,000
Notes payable - current	22,029	21,756
Deferred revenue	340,487	295,245
Total Current Liabilities	2,332,518	2,826,910
Notes payable, net of current	34,016	55,065
Deferred rent liability	15,400	21,653
Total Liabilities	2,381,934	2,903,628
Net Assets		
Without donor restrictions	10,781,675	11,783,726
With donor restrictions	16,953,322	32,663,693
Total Net Assets	27,734,997	44,447,419
	$ 30,116,931	$ 47,351,047

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

FARESTART

Consolidated Statement of Activities

Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenue			
Food service revenue	$ 10,455,227	-	$ 10,455,227
In-kind contributions - food	323,060	-	323,060
	10,778,287	-	10,778,287
Cost of goods sold	2,716,847	-	2,716,847
Net Operating Revenue	8,061,440	-	8,061,440
Public Support and Other Revenue			
Private grants	2,766,322	1,344,776	4,111,098
Public contracts	1,774,706	-	1,774,706
Contributions - operating	2,258,297	80,000	2,338,297
In-kind contributions - non-food (Note 11)	785,136	-	785,136
Special events, net of direct benefits to donors of $423,190	1,720,957	-	1,720,957
Services and membership dues - Catalyst Kitchens	296,617	-	296,617
Investment income and other	44,064	-	44,064
Total Public Support and Other Revenue	9,646,099	1,424,776	11,070,875
Net Assets Released from Restrictions			
In-kind lease cancellation (Note 14)	13,042,361	(13,042,361)	-
Expiration of time restrictions	3,165,829	(3,165,829)	-
Satisfaction of purpose restrictions	926,957	(926,957)	-
Total Net Assets Released from Restrictions	17,135,147	(17,135,147)	-
Total Public Support, Revenue, and Other Support	34,842,686	(15,710,371)	19,132,315
Expenses			
Program services	17,656,167	-	17,656,167
Management and general			
FareStart Operations	15,921,773	-	15,921,773
FareStart Properties, LLC	171,855	-	171,855
Fundraising	2,077,822	-	2,077,822
Total Expenses	35,827,617	-	35,827,617
Revenue over (under) expenses	(984,931)	(15,710,371)	(16,695,302)
Net realized and unrealized gains (losses) on investments	(17,120)	-	(17,120)
Change in Net Assets	(1,002,051)	(15,710,371)	(16,712,422)
Net Assets, beginning of year	11,783,726	32,663,693	44,447,419
Net Assets, end of year	$ 10,781,675	16,953,322	$ 27,734,997

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

FareStart
Consolidated Statement of Activities
Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenue			
Food service revenue	$ 7,999,537	-	$ 7,999,537
In-kind contributions - food	207,619	-	207,619
	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
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 and other	30,792	-	30,792
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	188,453	(188,453)	-
Total Net Assets Released from Restrictions	1,856,380	(1,856,380)	-
Total Public Support, Revenue, and Other Support	17,860,053	32,389,193	50,249,246
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	1,949,246	-	1,949,246
Total Expenses	18,992,804	-	18,992,804
Revenue over (under) expenses	(1,132,751)	32,389,193	31,256,442
Net realized and unrealized gains (losses) on investments	891	-	891
Change in Net Assets	(1,131,860)	32,389,193	31,257,333
Net Assets, beginning of year	12,915,586	274,500	13,190,086
Net Assets, end of year	$ 11,783,726	32,663,693	$ 44,447,419

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

FARESTART

Consolidated Statement of Functional Expenses
Year Ended December 31, 2018

	Food Service Training Program	Management and General		Total Management and General	Fundraising	Total All Services
		FareStart	FareStart Properties, LLC			
Salaries and wages	$ 8,619,081	1,054,527	-	1,054,527	1,093,493	$ 10,767,101
Payroll taxes and benefits	1,746,260	197,969	-	197,969	179,075	2,123,304
Total wages and related expenses	10,365,341	1,252,496	-	1,252,496	1,272,568	12,890,405
Restaurant and café operating expenses:						
Linen services	204,523	-	-	-	-	204,523
Paper supplies	155,545	5,926	-	5,926	-	161,471
Repairs and maintenance	66,532	1,329	-	1,329	70	67,931
Other	487,411	32,286	70	32,356	45,592	565,359
Total restaurant and café operating expenses	914,011	39,541	70	39,611	45,662	999,284
Advertising	61,677	2,353	-	2,353	6,450	70,480
Bad debt and other losses	360	7,881	-	7,881	(5,700)	2,541
Bank charges	230,975	8,561	60	8,621	62,923	302,519
Board and staff development	65,214	65,318	-	65,318	11,593	142,125
Interest	-	37,565	-	37,565	-	37,565
Loss on in-kind lease cancellation (Note 14)	-	13,042,361	-	13,042,361	-	13,042,361
Occupancy	3,545,146	72,223	-	72,223	50,881	3,668,250
Other expense	451,546	235,798	-	235,798	126,878	814,222
Professional fees	597,247	1,043,361	-	1,043,361	268,962	1,909,570
Space rental	123,679	-	-	-	167,270	290,949
Startup expenses	-	20,674	-	20,674	-	20,674
Student support	785,205	515	-	515	-	785,720
Supplies, postage and copies	148,523	55,073	-	55,073	63,786	267,382
Depreciation and amortization	367,243	38,053	171,725	209,778	6,549	583,570
Total expenses as shown on the Statement of Activities	17,656,167	15,921,773	171,855	16,093,628	2,077,822	35,827,617
Cost of goods sold:						
Food purchases and other	2,393,787	-	-	-	-	2,393,787
In-kind donations of food	319,592	1,778	-	1,778	1,690	323,060
Total cost of goods sold	2,713,379	1,778	-	1,778	1,690	2,716,847
Total	$ 20,369,546	15,923,551	171,855	16,095,406	2,079,512	$ 38,544,464

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: FareStart	Management and General: FareStart Properties, LLC	Total Management and General	Fundraising	Total All Services
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**
Interest	**-**	9,624	-	**9,624**	**-**	**9,624**
Loss on disposition of assets	**7,988**	294,923	24,064	**318,987**	**-**	**326,975**
Occupancy	**1,987,582**	44,634	-	**44,634**	**41,235**	**2,073,451**
Other expense	**323,728**	92,487	-	**92,487**	**83,348**	**499,563**
Professional fees	**238,940**	845,126	-	**845,126**	**414,022**	**1,498,088**
Space rental	**117,433**	-	-	**-**	**90,600**	**208,033**
Startup expenses	**733,061**	36,740	-	**36,740**	**-**	**769,801**
Student support	**722,335**	337	-	**337**	**-**	**722,672**
Supplies, postage and copies	**250,469**	30,668	-	**30,668**	**69,790**	**350,927**
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 and other	**1,859,541**	-	-	**-**	-	**1,859,541**
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 Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows provided (used) in operating activities:		
Cash received from:		
Public contracts	$ 2,105,650	$ 1,267,526
Private grants	4,156,340	4,973,591
Donors	3,966,109	2,488,335
Sales to the public	10,793,493	7,302,186
Services and membership dues - Catalyst Kitchens	296,617	296,740
Interest, dividends and other	44,064	30,792
Cash paid for:		
Personnel	(12,792,550)	(10,297,615)
Services and supplies	(8,258,520)	(7,027,700)
Interest	(37,565)	(9,624)
Net cash provided (used) in operating activities	273,638	(975,769)
Cash flows provided (used) in investing activities:		
Sale of investments	-	250,000
Purchases of investments	(48,983)	(25,161)
Purchases of property and equipment	(142,861)	(253,970)
Net cash provided (used) in investing activities	(191,844)	(29,131)
Cash flows provided (used) in financing activities:		
Payment of notes payable	(20,776)	(11,449)
Increase (decrease) in line of credit	(558,806)	925,000
Payment of line of credit fees	-	(50,200)
Net cash provided (used) in financing activities	(579,582)	863,351
Net increase (decrease) in cash	(497,788)	(141,549)
Cash and cash equivalents at beginning of year	1,572,828	1,714,377
Cash and cash equivalents at end of year	$ 1,075,040	$ 1,572,828
Reconciliation of Changes in Net Assets to Net Cash Provided (Used) By Operating Activities:		
Changes in net assets	$ (16,712,422)	$ 31,257,333
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	583,570	597,137
Loss on disposal of fixed assets	-	333,638
Net realized and unrealized (gains) losses on investments	17,120	(891)
Decrease (increase) in:		
Accounts receivable	316,875	(699,351)
Federal awards receivable	330,944	(480,231)
Promises to give	(93,145)	(1,652,576)
Contribution receivable for rent (Note 12)	15,762,502	(30,608,986)
Prepaid expenses	(24,514)	(73,808)
Inventory	(11,305)	(64,222)
Other assets	46,125	(78,457)
Cash - board restricted	-	(200,000)
(Decrease) increase in:		
Accounts payable	(78,956)	408,742
Accrued expenses	97,855	321,059
Deferred rent	(6,253)	(10,646)
Deferred revenue	45,242	(24,510)
Net cash provided (used) by operating activities	$ 273,638	$ (975,769)

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.

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 1,253 applicants, enrolled 502 and placed 346 in employment, up from 317 in 2017. 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, supported 73 member organizations during 2018, ending the year with 65 members in the network and an 85% member renewal rate, which is a net increase of 12 (21% increase) in organizations compared to 2017.

Catalyst Kitchens also engages in consulting services. In 2018, our consultancy supported 38 unique nonprofit organizations, nearly twice as many as in 2017. Catalyst Kitchens prepared 5 new programs to launch and 7 existing programs to scale, provided training to 14 organizations and assisted another 12 organizations to determine the feasibility of a program in their community.

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

Over 53% 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: Pacific Tower Café on Beacon Hill, 2100 Café in Rainier Valley, and Rise by FareStart (opened 7/8/17) in South Lake Union.
3) Three fast casual lunch eateries collectively called Community Table by FareStart in South Lake Union (opened 7/18/17). FareStart closed Community Table on 1/25/19; see Note 14 for further information over the closure.
4) Full catering services on FareStart premises or offsite.
5) Contract meals made and delivered daily to area shelters, schools and day care centers.

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

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 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 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 $16,953,322 and $32,663,693 at December 31, 2018 and 2017, 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, 2018 and 2017.

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.

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

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, 2018 and 2017, the allowance for doubtful accounts was $66,523 and $66,523, 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, 2018 and 2017. Promises to give – long-term are due within four years. The long-term pledges are recorded at present value, discounted at the rate that reflects the releative 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.

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

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. Depreciation expense was $566,838 and $585,981 for the years ended December 31, 2018 and 2017. 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.

Property and equipment consisted of the following at December 31:

	2018	2017
Land	$ 2,442,204	$ 2,442,204
Building and improvements	8,264,070	8,235,650
Furniture, equipment and software	3,283,363	3,168,922
Vehicles	361,214	361,214
	14,350,851	14,207,990
Less accumulated depreciation	(5,666,089)	(5,099,251)
	$ 8,684,762	$ 9,108,739

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 $27,888 and $11,156 as of December 31, 2018 and 2017. Future anticipated amortization is $16,733 in 2019 and $5,578 in 2020.

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.

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

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.

Advertising expenses

Advertising is expensed as incurred. For the years ended December 31, 2018 and 2017, advertising expense was $70,480 and $74,335, 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 provides qualified transportation benefits to employees which are subject to corporate income tax as of January 1, 2018. FareStart incurred estimated income tax expense of $27,315 for the year ended December 31, 2018.

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

Federal income taxes, continued

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, 2018 and 2017.

FareStart recognizes income tax related interest in interest expense and penalties in operating expenses. During the years ended December 31, 2018 and 2017, 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, 2018 and 2017.

New Accounting Pronouncement

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

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 April 26, 2019, which is the date the consolidated financial statements were available to be issued.

NOTE 3 – LIQUIDITY

On December 31, 2018, FareStart concluded the year ended December 31 with the following liquid or near-liquid resources:

	2018	2017
Operating cash	$ 921,759	$ 1,376,399
Bank controlled cash	153,281	196,429
Accounts receivable, net	687,278	1,004,153
Federal awards receivable	434,139	765,083
Promises to give - current	1,178,063	763,571
Board designated reserve	1,017,534	790,398
FareStart property reserve	631,349	626,622
Subtotal	5,023,403	5,522,655
Less amounts not available to be used within one year:		
Net assets with donor restrictions	2,106,838	2,054,707
Net assets with purpose restrictions to be met in less than a year	(1,280,063)	(600,143)
	826,775	1,454,564
Financial assets available to meet general expeditures over the next twelve months	$ 4,196,628	$ 4,068,091

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 \$3.5 - \$4.5 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 \$5 million as discussed in Note 7.

NOTE 4 – CASH AND INVESTMENTS – BOARD RESTRICTED

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

	2018	2017
Cash	$ -	$ 200,000
Exchange traded funds	1,169,102	1,095,231
Money market funds	70	448
Mutual funds	479,711	321,341
	$ 1,648,883	$ 1,617,020

NOTE 4 – CASH AND INVESTMENTS – BOARD RESTRICTED, continued

The Organization's board has designated net assets without donor restrictions equal to the fair value of cash and investments – board restricted presented above for the purpose of enabling the Organization to meet long-term objectives. Investment income consists of dividends of $37,770 and $25,187 for the years ended December 31, 2018 and 2017. Changes in net unrealized gains (losses) on investments are comprised of unrealized gains (losses) of $(17,120) and $891 for the years ended December 31, 2018 and 2017.

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.

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 4.51% and 4.2% as of December 31, 2018 and 2017, respectively.

Promises to give consisted of the following at December 31:

	2018	2017
Gross promises to give, temporarily restricted	$ 2,251,127	$ 2,261,762
Less: unamortized discount	(90,805)	(194,585)
Net promises to give	$ 2,160,322	$ 2,067,177
Amounts due in:		
Less than one year	$ 1,178,063	$ 763,571
One to five years, net of discount	982,259	1,303,606
	$ 2,160,322	$ 2,067,177

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 $366,194 and $925,000 outstanding as of December 31, 2018 and 2017, respectively.

FareStart has a $1,000,000 unsecured line of credit expiring on November 30, 2019. 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, 2018 and 2017.

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, 2018 is $56,045. 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:

2019	$ 22,029
2020	22,307
2021	11,709
	$ 56,045

NOTE 9 – IN-KIND CONTRIBUTIONS – NON-FOOD

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

	2018	2017
Use of facilities, furniture and fixtures	$ 60,745	$ 31,961,125
Services	305,482	220,347
Goods	418,909	511,477
	$ 785,136	$ 32,692,949

NOTE 10 – RELATED PARTY TRANSACTIONS

Board of Director Contributions

During the years ended December 31, 2018 and 2017, respectively, FareStart received $405,460 and $310,345 in contributions from the members of the Board of Directors. Additionally, $170,718 and $160,267 of promises to give are recorded as receivable from members of the Board of Directors as of December 31, 2018 and 2017.

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:

2019	$ 18,552
2020	2,906
Thereafter	-
	$ 21,458

Rent expense under these equipment leases was $45,851 and $33,241 for the years ended December 31, 2018 and 2017, 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 lease that expires on December 31, 2019.

NOTE 11 – LEASE COMMITMENTS, continued

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 $19,688,111 and $40,744,273 at December 31, 2018 and 2017. Discounted at 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 14.

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

	Recognized Contribution	Discount Receivable (Interest Portion)	Total
2019	$ 1,281,953	(61,240)	$ 1,220,713
2020	1,342,017	(118,178)	1,223,839
2021	1,361,190	(165,634)	1,195,556
2022	1,380,821	(212,316)	1,168,505
2023	1,400,921	(258,291)	1,142,630
Thereafter	12,921,209	(4,025,968)	8,895,241
	$ 19,688,111	(4,841,627)	$ 14,846,484

Rent expense under these facility leases was $3,129,878 and $1,421,806 for the years ended December 31, 2018 and 2017, respectively, and is included in occupancy expense. The in-kind portion of rent expense was $2,836,594 and $1,144,770 for the years ended December 31, 2018 and 2017.

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

2019	$ 246,498
2020	132,384
2021	132,384
2022	132,384
2023	132,384
Thereafter	1,985,760
	$ 2,761,794

NOTE 12 – NET ASSETS WITH DONOR RESTRICTIONS

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

	2018	2017
Purpose restricted gifts:		
Youth culinary	$ 172,167	$ 176,048
Youth barista	25,000	75,000
Apprenticeship	343,750	-
Catalyst Kitchen	82,950	-
Total purpose restricted gifts	623,867	251,048
Time restricted gifts:		
Contribution receivable for rent	14,846,484	30,608,986
Contributions with payments due in future periods	1,482,971	1,803,659
Total time restricted gifts	16,329,455	32,412,645
Total restricted gifts	$ 16,953,322	$ 32,663,693

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 $190,059 and $143,637 to the plan in the years ended December 31, 2018 and 2017, respectively.

NOTE 14 – FACILITY CLOSURE

During December 2018, FareStart management, in conjunction with its landlord, determined that it needed to close operations at its Community Table location in South Lake Union due to continued operating losses. FareStart vacated the premises in February 2019. This represented approximately 52% of the space donated to FareStart by the landlord.

As a result of the closure, FareStart reduced the in-kind contribution receivable by $18,293,015, the discount by $5,250,654 and recorded a loss of $13,042,361. FareStart also recorded a liability of $13,400 of costs related to termination benefits for employees and the cancellation of a vendor contract.

NOTE 15 – ECONOMIC CONCENTRATIONS AND CONTINGENCIES

FareStart receives contract revenue from one government agency which provided 17% and 14% of FareStart's unrestricted public support and other revenue for the years ended December 31, 2018 and 2017, 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, 2018 and 2017, no such adjustments were made.

An individual granting organization provided 37% and 56% of restricted private grant contributions in each of the years ended December 31, 2018 and 2017, respectively. One federal award funder composed 95% and 100% of federal awards receivable as of December 31, 2018 and 2017. One donor composed 52% and 61% of promises to give as of December 31, 2018 and 2017. One landlord comprised 100% of contributions receivable for rent as of both December 31, 2018 and 2017.

One vendor supplied 49% and 61% of FareStart's food purchases which are included in cost of goods sold for both of the years ended December 31, 2018 and 2017.

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.

NOTE 16 – SUMMARIZED CONSOLIDATING SCHEDULES FOR 2018

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	$ 21,215,819	7,683,011	1,218,101	$ 30,116,931
Liabilities	$ 2,381,934	-	-	$ 2,381,934
Net Assets	18,833,885	7,683,011	1,218,101	27,734,997
Total Net Assets and Liabilities	$ 21,215,819	7,683,011	1,218,101	$ 30,116,931

NOTE 16 – SUMMARIZED CONSOLIDATING SCHEDULES FOR 2018, continued

As reflected in the schedule below, FareStart recorded a decrease in consolidated net assets of $16,712,422, reflecting expenses in excess of revenues at FareStart of $16,618,519, and a net decrease of $93,903 at FSP LLC, due primarily to building depreciation expense.

	FareStart	FareStart Properties, LLC	Eliminating Entries	Consolidated Balances
Operating revenue	$ 10,778,287	-	-	$ 10,778,287
Cost of goods sold	2,716,847	-	-	2,716,847
Net Operating Revenue	8,061,440	-	-	8,061,440
Unrestricted Public Support and Other Revenue				
Grants, contracts and contributions	6,799,325	-	-	6,799,325
In-kind contributions - other	785,136	-	-	785,136
Special events, net of direct benefits to donors	1,720,957	-	-	1,720,957
Services and membership dues - Catalyst Kitchens	296,617	-	-	296,617
Interest income and other	98,496	132,384	(186,816)	44,064
Total Unrestricted Public Support and other revenue	9,700,531	132,384	(186,816)	9,646,099
Total Unrestricted Support and Revenue	17,761,971	132,384	(186,816)	17,707,539
Expenses:				
Wages and related expenses	12,890,405	-	-	12,890,405
Restaurant and café operating expenses	999,214	70	-	999,284
Advertising	70,480	-	-	70,480
Bank charges, bad debt and other expenses	305,000	60	-	305,060
Board and staff development	142,125	-	-	142,125
Interest	37,565	-	-	37,565
Loss on disposition of assets	13,042,361	-	-	13,042,361
Occupancy	3,800,634	-	(132,384)	3,668,250
Other expense	814,222	-	-	814,222
Professional fees	1,909,570	54,432	(54,432)	1,909,570
Space rental	290,949	-	-	290,949
Startup expenses	20,674	-	-	20,674
Student support	785,720	-	-	785,720
Supplies, postage and copies	267,382	-	-	267,382
Depreciation and amortization	411,845	171,725	-	583,570
Total Expenses	35,788,146	226,287	(186,816)	35,827,617
Net realized and unrealized gains (losses) on investments	(17,120)	-	-	(17,120)
Restricted revenue	1,424,776	-	-	1,424,776
Total change in net assets	$ (16,618,519)	(93,903)	-	$ (16,712,422)

Supplementary Financial Information

FARESTART
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2018

	Federal CFDA Number	Pass-Through Entity Identifying Number	Pass-Through Awards of Federal Expenditures	
Department of Agriculture:				
Food and Nutrition Service				
State Adminstrative Matching Grants for the Supplemental Nutrition Assistance Program				
Pass-Through Program From Washington State Department of Social and Health Services - Basic Food Employment and Training	10.561	1712-15796	$ 1,187,903	*
State Adminstrative Matching Grants for the Supplemental Nutrition Assistance Program				
Pass-Through Program From Washington State Department of Social and Health Services - Basic Food Employment and Training	10.561	1812-39161	407,395	*
Subtotal Supplemental Nutrition Assistance Program/Cluster			1,595,298	
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	1712-16245	112,478	
Subtotal Department of Agriculture			**1,707,776**	
Department of Labor:				
Employment Training Administration				
Workforce Innovation and Opportunity Act Career Connect Washington				
Pass-Through Program From Workforce Development Council	17.274	17-318-CCW	**53,430**	
Total Expenditures of Federal Awards			$ 1,761,206	

* Denotes Major Program

See accompanying notes to the schedule of expenditures of federal awards

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, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of FareStart, it is not intended to and does not present the financial position, changes in net assets or cash flows of FareStart.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

NOTE 3 – INDIRECT COSTS

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

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

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

Board of Directors
FareStart

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of FareStart (a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2018, 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 26, 2019.

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*.

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

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, Neill & Company, P.S.

April 26, 2019
Seattle, Washington

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

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, 2018. 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, 2018.

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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, Neill & Company, P.S.

April 26, 2019
Seattle, Washington

FareStart
Schedule of Findings and Questioned Costs
Year Ended December 31, 2018

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

Section II – Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

None

Section IV – Summary Schedule of Prior Audit Findings

2017-001 Cutoff

Finding:

Internal control processes over preparation of a monthly billing to the grantor of the Basic Food Employment and Training contract #1712-15796 did not ensure appropriate cutoff between contract periods.

Current Status:

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.

Current Status:

The finding is closed.