FARESTART

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

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, 2019 and 2018, 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.

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, 2019 and 2018, 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 May 8, 2020 on our consideration of FareStart's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of FareStart's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering FareStart's internal control over financial reporting and compliance.

Finney, Neill & Company, P.S.

May 8, 2020
Seattle, Washington

FARESTART

Consolidated Statements of Financial Position
December 31, 2019 and 2018

ASSETS	2019	2018
Current Assets		
Cash and cash equivalents	$ 2,621,393	$ 1,075,040
Accounts receivable, net	648,516	687,278
Federal awards receivable	408,145	434,139
Promises to give - current	1,772,590	1,178,063
Contribution receivable for rent - current (Notes 11 & 14)	2,259,526	1,220,713
Prepaid expenses	417,041	378,958
Inventory	139,012	146,421
Other assets	-	32,332
Total Current Assets	8,266,223	5,152,944
Investments, at fair value - board restricted	1,637,138	1,648,883
Promises to give - long-term, net	28,450	982,259
Contribution receivable for rent, net of current (Notes 11 & 14)	2,031,527	13,625,771
Property and equipment, net	8,741,921	8,684,762
Capitalized costs, net	5,578	22,312
	$ 20,710,837	$ 30,116,931

LIABILITIES AND NET ASSETS	2019	2018
Current Liabilities		
Accounts payable	$ 399,757	$ 710,842
Accrued payroll expenses	988,570	892,966
Line of credit	2,266,194	366,194
Notes payable - current	41,929	22,029
Deferred revenue	287,208	340,487
Total Current Liabilities	3,983,658	2,332,518
Notes payable, net of current	61,115	34,016
Deferred rent liability	3,189	15,400
Total Liabilities	4,047,962	2,381,934
Net Assets		
Without donor restrictions	11,843,935	10,781,675
With donor restrictions	4,818,940	16,953,322
Total Net Assets	16,662,875	27,734,997
	$ 20,710,837	$ 30,116,931

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

FareStart
Consolidated Statement of Activities
Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenue			
Food service revenue	$ 10,331,493	-	$ 10,331,493
In-kind contributions - food	168,884	-	168,884
	10,500,377	-	10,500,377
Cost of goods sold	2,398,321	-	2,398,321
Net Operating Revenue	8,102,056	-	8,102,056
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	10,170,768	746,450	10,917,218
Net Assets Released from Restrictions			
In-kind lease cancellation (Note 14)	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	12,880,832	(12,880,832)	-
Total Public Support, Revenue, and Other Support	31,153,656	(12,134,382)	19,019,274
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	30,111,567	-	30,111,567
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	10,781,675	16,953,322	27,734,997
Net Assets, end of year	$ 11,843,935	4,818,940	$ 16,662,875

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 9)	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 Functional Expenses
Year Ended December 31, 2019

	Food Service Training Program	Management and General		Total Management and General	Fundraising	Total All Services
		FareStart	FareStart Properties, LLC			
Salaries and wages	$ 8,301,394	1,732,112	-	1,732,112	950,308	$ 10,983,814
Payroll taxes and benefits	1,741,909	335,182	-	335,182	158,551	2,235,642
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	473,772	(31,623)	-	(31,623)	43,055	485,204
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 14)	-	8,113,073	-	8,113,073	-	8,113,073
Occupancy	3,219,362	80,390	-	80,390	46,897	3,346,649
Miscellaneous expense	55,453	101,070	-	101,070	68,263	224,786
Complimentary meals	-	1,620	-	1,620	3,665	5,285
Insurance	97,480	9,975	-	9,975	6,648	114,103
Program materials and meetings	1,099	30	-	30	999	2,128
Student and staff meals	89,302	12,234	-	12,234	7,521	109,057
Transportation	104,964	8,580	-	8,580	7,748	121,292
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	336,196	41,079	171,725	212,804	15,007	564,007
Total expenses as shown on the Statement of Activities	16,957,043	11,167,379	171,725	11,339,104	1,815,420	30,111,567
Cost of goods sold:						
Food purchases and other	2,229,437	-	-	-	-	2,229,437
In-kind donations of food	167,767	310	-	310	807	168,884
Total cost of goods sold	2,397,204	310	-	310	807	2,398,321
Special event expenses included with support and revenue on the statement of activities	-	-	-	-	523,448	523,448
Total	$ 19,354,247	11,167,689	171,725	11,339,414	2,339,675	$ 33,033,336

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: FareStart	Management and General: FareStart Properties, LLC	Total Management and General	Fundraising	Total All Services
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**
Miscellaneous expense	**144,854**	207,873	-	**207,873**	**82,612**	**435,339**
Program materials and meetings	**4,324**	-	-	**-**	**7,229**	**11,553**
Student and staff meals	**129,178**	7,039	-	**7,039**	**6,759**	**142,976**
Transportation	**78,721**	9,596	-	**9,596**	**16,403**	**104,720**
Complimentary meals	**-**	4,305	-	**4,305**	**8,400**	**12,705**
Insurance	**94,469**	4,234	-	**4,234**	**5,475**	**104,178**
Re-grant expense	**-**	2,751	-	**2,751**	**-**	**2,751**
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**
Special event expenses included with support and revenue on the statement of activities	**-**	-	-	**-**	**423,190**	**423,190**
Total	**$ 20,369,546**	15,923,551	171,855	**16,095,406**	**2,502,702**	**$ 38,967,654**

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

FARESTART

Consolidated Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows provided (used) in operating activities:		
Cash received from:		
Public contracts	$ 1,841,693	$ 2,105,650
Private grants	3,918,650	4,156,340
Donors	4,107,339	3,966,109
Sales to the public	10,370,255	10,793,493
Services and membership dues - Catalyst Kitchens	403,921	296,617
Interest, dividends and other	55,737	44,064
Cash paid for:		
Personnel	(13,123,852)	(12,792,550)
Services and supplies	(7,418,298)	(8,258,520)
Interest	(81,092)	(37,565)
Net cash provided (used) in operating activities	74,353	273,638
Cash flows provided (used) in investing activities:		
Sale of investments	150,000	-
Purchases of investments	(118,084)	(48,983)
Purchases of property and equipment	(425,222)	(142,861)
Net cash provided (used) in investing activities	(393,306)	(191,844)
Cash flows provided (used) in financing activities:		
Payment of notes payable	(34,694)	(20,776)
Increase (decrease) in line of credit	1,900,000	(558,806)
Net cash provided (used) in financing activities	1,865,306	(579,582)
Net increase (decrease) in cash	1,546,353	(497,788)
Cash and cash equivalents at beginning of year	1,075,040	1,572,828
Cash and cash equivalents at end of year	$ 2,621,393	$ 1,075,040
Reconciliation of Changes in Net Assets to Net Cash Provided (Used) By Operating Activities:		
Changes in net assets	$ (11,072,122)	$ (16,712,422)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	564,007	583,570
Net realized and unrealized (gains) losses on investments	(20,171)	17,120
Contributed equipment, goods and services capitalized	(97,517)	-
Decrease (increase) in:		
Accounts receivable	38,762	316,875
Federal awards receivable	25,994	330,944
Promises to give	359,282	(93,145)
Contribution receivable for rent (Note 14)	10,555,431	15,762,502
Prepaid expenses	(38,083)	(24,514)
Inventory	7,409	(11,305)
Other assets	32,332	46,125
(Decrease) increase in:		
Accounts payable	(311,085)	(78,956)
Accrued expenses	95,604	97,855
Deferred rent	(12,211)	(6,253)
Deferred revenue	(53,279)	45,242
Net cash provided (used) by operating activities	$ 74,353	$ 273,638

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

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

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 786 applicants, enrolled 421 and placed 300 in employment in 2019. 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, uniforms, mental health and recovery counseling 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 the 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 to help low-wage foodservice workers develop the higher skills they need to advance in the foodservice industry and earn better living wages.

FareStart's national program, Catalyst Kitchens, supported 88 member organizations during 2019, ending the year with 81 members in the network and an 89% member renewal rate, which is a net increase of 16 (25% increase) in organizations compared to 2018.

Catalyst Kitchens also engages in consulting services. In 2019, our consultancy supported 66 unique nonprofit organizations, an increase of 75% over 2018. Catalyst Kitchens prepared 9 new programs to launch and 12 existing programs to scale, and provided training to 45 organizations.

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

49% 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" in South Lake Union. FareStart closed Maslow's on 1/31/2020; see Note 14 for further information regarding the closure.
2) Three cafes: Pacific Tower Café on Beacon Hill, 2100 Café in Rainier Valley, and Rise by FareStart in South Lake Union. FareStart closed 2100 Café in Rainier Valley on 1/31/2020; see Note 14 for further information regarding 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 two 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 $4,818,940 and $16,953,322 at December 31, 2019 and 2018, 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, 2019 and 2018.

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, 2019 and 2018, the allowance for doubtful accounts was $75,076 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, 2019 and 2018. 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 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, five years for vehicles, five to fifteen years for leasehold improvements and forty years for buildings. Depreciation expense was $547,273 and $566,838 for the years ended December 31, 2019 and 2018.

Property and equipment consisted of the following at December 31:

	2019	2018
Land	$ 2,442,204	$ 2,442,204
Building and improvements	8,474,358	8,264,070
Furniture, equipment and software	3,595,812	3,283,363
Vehicles	442,907	361,214
	14,955,281	14,350,851
Less accumulated depreciation	(6,213,360)	(5,666,089)
	$ 8,741,921	$ 8,684,762

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 $44,622 and $27,888 as of December 31, 2019 and 2018. Future anticipated amortization is $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, 2019 and 2018, advertising expense was $34,941 and $70,480, 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.

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, 2019 and 2018.

FareStart recognizes income tax related interest in interest expense and penalties in operating expenses. During the years ended December 31, 2019 and 2018, 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, 2019 and 2018.

New Accounting Pronouncement

FareStart adopted the Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) 2018-08, Not-for-Profit Entities (Topic 958) – *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* for revenue transactions. The update assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and (2) determining whether a contribution is conditional. As a result, the ASU enhances comparability of financial information among not-for-profit entities. The change in accounting principle was adopted on a modified prospective basis in 2019. As a result, there was no cumulative-effect adjustment to opening net assets without donor restrictions or opening net assets with donor restrictions as of January 1, 2019. There was no effect of adopting the new accounting Principles on contributions in 2019.

In May 2014, the FASB issued ASU 2016-09, *Revenue from Contracts with Customers* (Topic 606). ASU 2016-09 outlines a single, comprehensive model for companies to use in accounting for revenue arising from contracts with customers. The core principle of the revenue model is that revenue is recognized when a customer obtains control of a good or service. The change in accounting principle was adopted on the retrospective basis which resulted in no change to revenue previously reported, and also had no effect on the revenue reported for the year ended December 31, 2019.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments-Overall* (Topic 825-10). ASU 2016-01 addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The change in accounting principle was adopted on the retrospective basis which resulted in no change to investment recognition or measurement previously reported, and also had no effect on the investments and related income reported for the year ended December 31, 2019.

NOTE 2 – SUBSEQUENT EVENTS

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the U.S. On March 11, 2020, the World Health Organization characterized 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, the Organization suspended its training programs and closed its dining facilities. The Organization transitioned its food service workforce to preparing contract meals for delivery to shelters, quarantine and isolation centers and other facilities housing populations that are most at-risk for COVID-19. Changes to the operating environment may increase operating cost and change revenue sources. Additional impacts may include other than temporary impairment of investments and receivables and the cancellation of catering contracts. The future effects of these issues are unknown.

In April 2020, the Organization was granted extensions of the expiration dates of both of its lines of credit to June 30, 2020. In addition, the Organization was awarded two Small Business Administration loans, which included a $500,000 Economic Injury Disaster Loan and a $2,470,0000 Paycheck Protection Loan.

Subsequent events have been evaluated through May 8, 2020, which is the date the consolidated financial statements were available to be issued.

NOTE 3 – LIQUIDITY

On December 31, 2019, FareStart concluded the year ended December 31 with the following liquid or near-liquid resources:

	2019	2018
Operating cash	$ 2,541,370	$ 921,759
Bank controlled cash	80,023	153,281
Accounts receivable, net	648,516	687,278
Federal awards receivable	408,145	434,139
Promises to give - current	1,772,590	1,178,063
Board designated reserve	1,126,929	1,017,534
FareStart property reserve	510,209	631,349
Subtotal	7,087,782	5,023,403
Less amounts not available to be used within one year:		
Net assets with donor restrictions	527,887	2,106,838
Net assets with purpose restrictions to be met in less than a year	(479,437)	(1,280,063)
	48,450	826,775
Financial assets available to meet general expeditures over the next twelve months	$ 7,039,332	$ 4,196,628

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 \$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 \$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:

	2019	2018
Exchange traded funds	$ 1,126,902	$ 1,169,102
Money market funds	2,505	70
Mutual funds	507,731	479,711
	$ 1,637,138	$ 1,648,883

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 \$44,812 and \$37,770 for the years ended December 31, 2019 and 2018. Changes in net unrealized gains (losses) on investments are comprised of unrealized gains (losses) of \$20,171 and \$(17,120) for the years ended December 31, 2019 and 2018. 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.

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, NOTE 5 - FAIR VALUE MEASUREMENTS, continued

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, 2019 and 2018, respectively.

Promises to give consisted of the following at December 31:

	2019	2018
Gross promises to give, temporarily restricted	$ 1,801,040	$ 2,251,127
Less: unamortized discount	-	(90,805)
Net promises to give	$ 1,801,040	$ 2,160,322
Amounts due in:		
Less than one year	$ 1,772,590	$ 1,178,063
One to five years, net of discount	28,450	982,259
	$ 1,801,040	$ 2,160,322

NOTE 7 - LINE OF CREDIT

FareStart has a $2,000,000 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 $1,816,194 and $366,194 outstanding as of December 31, 2019 and 2018, respectively.

FareStart has a $1,000,000 unsecured line of credit expiring on May 29, 2020. 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 $450,000 and $0 outstanding as of December 31, 2019 and 2018.

NOTE 8 – NOTES PAYABLE

FareStart has financed the purchase of four vehicles with notes payable originally totaling $169,960. The outstanding balance of the notes as of December 31, 2019 and 2018 was $103,044 and $56,045. The notes carry interest rates of 0% to 4.75% and will be repaid over a four year term in the years ending December 31:

2020	$	41,929
2021		33,279
2022		21,514
2023		6,322
	$	103,044

NOTE 9 – IN-KIND CONTRIBUTIONS – NON-FOOD

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

		2019		2018
Use of facilities, furniture and fixtures	$	37,423	$	60,745
Services		318,260		305,482
Goods		566,192		418,909
	$	921,875	$	785,136

NOTE 10 – RELATED PARTY TRANSACTIONS

Board of Director Contributions

During the years ended December 31, 2019 and 2018, respectively, FareStart received $311,985 and $405,460 in contributions from the members of the Board of Directors. Additionally, $111,646 and $170,718 of promises to give are recorded as receivable from members of the Board of Directors as of December 31, 2019 and 2018.

NOTE 11 – LEASE COMMITMENTS

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:

2020	$	37,046
2021		34,140
2022		34,140
2023		34,140
2024		2,845
Thereafter		-
	$	142,311

Rent expense under these equipment leases was $49,847 and $45,851 for the years ended December 31, 2019 and 2018, 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.

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

2020	$	288,311
2021		293,009
2022		297,818
2023		302,775
2024		248,247
Thereafter		1,853,376
	$	3,283,536

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 $4,656,022 and $19,688,110 at December 31, 2019 and 2018. 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 14.

NOTE 11 – LEASE COMMITMENTS, continued

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

	Recognized Contribution	Discount Receivable (Interest Portion)	Total
2020	$ 2,322,806	(63,280)	$ 2,259,526
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
Thereafter	687,695	(208,254)	479,441
	$ 4,656,022	(364,969)	$ 4,291,053

Rent expense under these facility leases was $2,782,580 and $3,129,878 for the years ended December 31, 2019 and 2018, respectively, and is included in occupancy expense. The in-kind portion of rent expense was $2,479,781 and $2,836,594 for the years ended December 31, 2019 and 2018.

NOTE 12 – NET ASSETS WITH DONOR RESTRICTIONS

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

	2019	2018
Purpose restricted gifts:		
Youth culinary	$ 11,667	$ 172,167
Youth barista	-	25,000
Apprenticeship	93,750	343,750
Ending Homelessness	130,000	-
Catalyst Kitchen	-	82,950
Total purpose restricted gifts	235,417	623,867
Time restricted gifts:		
Contribution receivable for rent	4,291,053	14,846,484
Contributions with payments due in future periods	292,470	1,482,971
Total time restricted gifts	4,583,523	16,329,455
Total restricted gifts	$ 4,818,940	$ 16,953,322

NOTE 13 – 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 $254,240 and $190,059 to the plan in the years ended December 31, 2019 and 2018, respectively.

NOTE 14 – 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.

As a result of the determination to close Community Table in 2018, 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 in the year ended December 31, 2018. FareStart also recorded a liability of $13,400 of costs related to termination benefits for employees and the cancellation of a vendor contract as of December 31, 2018.

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 15 – ECONOMIC CONCENTRATIONS AND CONTINGENCIES

FareStart receives contract revenue from one government agency which provided 15% and 17% of FareStart's unrestricted public support and other revenue for the years ended December 31, 2019 and 2018, 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, 2019 and 2018, no such adjustments were made.

An individual granting organization provided 37% and 37% of restricted private grant contributions in each of the years ended December 31, 2019 and 2018, respectively. One federal award funder composed 100% and 95% of federal awards receivable as of December 31, 2019 and 2018. One donor composed 62% and 52% of promises to give as of December 31, 2019 and 2018. One landlord comprised 100% of contributions receivable for rent as of both December 31, 2019 and 2018.

One vendor supplied 47% and 49% of FareStart's food purchases which are included in cost of goods sold for both of the years ended December 31, 2019 and 2018.

NOTE 15 – 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 16 – SUMMARIZED CONSOLIDATING SCHEDULES FOR 2019

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

	FareStart	FareStart Properties, LLC	Eliminating Entries	Consolidated Balances
Assets	$ 11,903,498	7,589,238	1,218,101	$ 20,710,837
Liabilities	$ 4,047,962	-	-	$ 4,047,962
Net Assets	7,855,536	7,589,238	1,218,101	16,662,875
Total Net Assets and Liabilities	$ 11,903,498	7,589,238	1,218,101	$ 20,710,837

NOTE 16 – SUMMARIZED CONSOLIDATING SCHEDULES FOR 2019, continued

As reflected in the schedule below, FareStart recorded a decrease in consolidated net assets of $11,072,122, reflecting expenses in excess of revenues at FareStart of $10,978,349, and a net decrease of $93,773 at FSP LLC, due primarily to building depreciation expense.

	FareStart	FareStart Properties, LLC	Eliminating Entries	Consolidated Balances
Operating revenue	$ 10,500,377	-	-	$ 10,500,377
Cost of goods sold	2,398,321	-	-	2,398,321
Net Operating Revenue	8,102,056	-	-	8,102,056
Unrestricted Public Support and Other Revenue				
Grants, contracts and contributions	7,075,060	-	-	7,075,060
In-kind contributions - other	921,875	-	-	921,875
Special events, net of direct benefits to donors	1,714,175	-	-	1,714,175
Services and membership dues - Catalyst Kitchens	403,921	-	-	403,921
Interest income and other	110,169	132,384	(186,816)	55,737
Total Unrestricted Public Support and other revenue	10,225,200	132,384	(186,816)	10,170,768
Total Unrestricted Support and Revenue	18,327,256	132,384	(186,816)	18,272,824
Expenses:				
Wages and related expenses	13,219,456	-	-	13,219,456
Restaurant and café operating expenses	830,236	-	-	830,236
Advertising	34,941	-	-	34,941
Bank charges, bad debt and other expenses	378,631	-	-	378,631
Board and staff development	168,153	-	-	168,153
Interest	81,092	-	-	81,092
Loss on disposition of assets	8,113,073	-	-	8,113,073
Occupancy	3,479,033	-	(132,384)	3,346,649
Other expense	576,651	-	-	576,651
Professional fees	1,604,836	54,432	(54,432)	1,604,836
Space rental	254,600	-	-	254,600
Startup expenses	-	-	-	-
Student support	717,087	-	-	717,087
Supplies, postage and copies	222,155	-	-	222,155
Depreciation and amortization	392,282	171,725	-	564,007
Total Expenses	30,072,226	226,157	(186,816)	30,111,567
Net realized and unrealized gains (losses) on investments	20,171	-	-	20,171
Restricted revenue	746,450	-	-	746,450
Total change in net assets	$ (10,978,349)	(93,773)	-	$ (11,072,122)

Supplementary Financial Information

FARESTART
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2019

	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	1912-63589	$ 360,028	*
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	1,225,262	*
Subtotal Supplemental Nutrition Assistance Program/Cluster			1,585,290	
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	1712-16246	1,599	
Subtotal Department of Agriculture			**1,586,889**	
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	**39,431**	
Total Expenditures of Federal Awards			$ 1,626,320	

* 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, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of FareStart, it is not intended to and does not present the financial position, changes in net assets or cash flows of FareStart.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 3 – INDIRECT COSTS

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

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

Board of Directors
FareStart

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of FareStart (a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated May 8, 2020.

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. 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.

May 8, 2020
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, 2019. 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, 2019.

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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.

May 8, 2020
Seattle, Washington

FARESTART
Schedule of Findings and Questioned Costs
Year Ended December 31, 2019

Section I – Summary of Auditors' Results

<u>Financial Statements</u>

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

<u>Federal Awards</u>

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

None