

NONPROFIT INVESTOR

INDEPENDENT RESEARCH FOR PHILANTHROPY

Delancey Street Foundation

Nonprofit Investor Rating:

BUY

Mission Statement

Delancey Street Foundation provides long-term residential housing and vocational training, education and basic life skills to former drug/alcohol abusers, homeless and others. Residents obtain a minimum of high school equivalency and gain on the job and life skills needed to return to various communities as decent, law abiding citizens.

Financial Overview

\$ in MM, Fiscal Year Ended December 31

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Revenue and Support	\$29.5	\$17.3	\$22.9
Operating Expenses	\$24.3	\$22.8	\$19.6
% of Total:			
Program Expenses	98.7%	98.2%	98.2%
G&A	1.2%	1.5%	1.5%
Fundraising	0.1%	0.2%	0.3%

Year Founded: 1971

Contact Details

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SUMMARY

Delancey Street Foundation ("DSF") provides residential, educational and rehabilitation services to former felons. Vocational training is provided through numerous enterprises run by DSF.

STRENGTHS

- ▲ **Majority of revenue is generated by programs rather than through donations.** DSF runs several successful enterprises which provide DSF residents with vocational training and income. In aggregate, these enterprises are profitable on a stand-alone basis.
- ▲ **Low cost per beneficiary.** With an average of 1,500 residents, DSF's annual cost per direct beneficiary is approximately \$12,000. If program revenues are deducted, the cost is approximately \$4,000.
- ▲ **Systematic outreach program broadens impact.** DSF's Institute for Social Renewal trains replicators of the successful DSF model.
- ▲ **Proven track record.** DSF has successfully graduated 18,000 individuals over 40 years under the leadership of its current CEO.
- ▲ **Executive management and directors draw no compensation.** Only one director receives compensation – she receives \$30,000 for her role as principal of DSF's charter school, Life Learning Academy.
- ▲ **Financially secure.** DSF generates \$3MM of cash from operations and had \$28.6MM of cash and cash equivalents at the end of 2009.

CAUTIONS

- ▼ **Impact measurement.** DSF cites many success stories but has not performed any publicly available impact studies.
- **DSF program revenues are subject to economic volatility.** In 2009, DSF program revenues declined by 9%.
- **Untimely financial reporting.** DSF reports results approximately 12 months after the close of each fiscal year.

RECOMMENDATION: BUY

DSF is pioneer of residential self-help for former felons. They have developed a model which requires a small amount of public funding to serve a large number of beneficiaries. Furthermore, DSF expands its impact by training other organizations in the process that they have developed over 40 years. NPI recommends replicating the DSF model, making a monetary donation, or patronizing DSF's social enterprises.

OVERVIEW OF DELANCEY STREET FOUNDATION'S ACTIVITIES

DSF is a leading residential self-help organization for substance abusers, ex-convicts and homeless people. Delancey Street residents are primarily referred by the Courts (85%) but also include walk-ins.

The minimum stay at Delancey Street is two years while the average resident remains for almost four years. During their time at Delancey Street, residents learn to live drug, alcohol and crime free lives. Additionally, residents receive academic and vocational training. Any act or threat of violence is cause for immediate removal from Delancey Street.

DSF currently has operations in San Francisco, Los Angeles, New Mexico, North Carolina and New York. Additionally, DSF promotes adaptation and replication of the organization's model through the Institute of Social Renewal and other initiatives.

Social Enterprises

DSF's operations primarily consist of enterprises which provide services to the public as a way to provide DSF residents with vocational training and employment. These enterprises help DSF residents develop marketable skills while creating positive interactions between residents and customers in the community. Enterprises include:

- Crossroads Café, Bookstore & Art Gallery
- Catering & Event Planning
- Delancey Coach (Corporate Private Car Service)
- Digital Print Shop
- Handcrafted Furniture, Ironworks, Plants & Glass, Ceramics
- Landscaping
- Moving and Trucking
- Paratransit Van & Bus Services
- Restaurant
- Screening Room
- Specialty Advertising Sales
- Xmas Tree Sales and Decorating

Vocational Training Programs

Each resident at Delancey Street learns 3 marketable skills by working in Delancey Street training schools. These include at least one manual skill, one clerical/computer skill, and one interpersonal/sales skill. The vocational training schools, managed and taught by residents themselves, are accredited by the state and award certificates for skills learned. Current vocational programs include:

- Accounting and bookkeeping
- Automotive & truck mechanical repair and painting
- Christmas tree sales and commercial decorating
- Coach & paratransit transportation services
- Coffeehouse, art gallery & bookstore
- Construction and property management
- Digital printing and banners, silk-screen, and framing
- Film screening
- Handcrafted wood, terrarium, iron works and furniture
- Moving and trucking
- Retail and advertising specialties sales
- Restaurant, catering, event and wedding planning
- Upholstery/sewing
- Warehousing
- Welding

Life Learning Academy (5.8% of Expenses)

DSF founded the Life Learning Academy ("LLA") charter school in 1998. LLA serves high-school aged youths that are involved in the juvenile justice system and/or have problems including serious school failure, family problems, gang involvement, poverty, abuse and substance abuse. Based on LLA's website, on average, LLA students who missed an average of 38 days in their prior semester at other schools missed an average of only 5 days in their first term at LLA, and improved their grade point average from 0.7 ("F") to 2.5 ("C") on average. LLA's average attendance rate is 90%, and its graduation rate averages 92%. LLA currently represents a small portion of DSF's activities.

PROGRAM RESULTS AND EFFECTIVENESS

DSF's website provides extensive information about the number of lives the organization has impacted. The website also includes many case studies of individuals being successfully rehabilitated through DSF's programs.

While DSF states that over 18,000 individuals have graduate from underclass into society as successful, taxpaying citizens leading decent, legitimate and productive lives, it is unclear how the organization tracks outcomes of its graduates over time.

Additionally, based on publicly available information, it is not possible to calculate the graduation rate of DSF residents (while the organization states it has graduated 18,000 individuals and currently has 1,500 residents, historical data for number of residents is not readily available).

While the positive impact of DSF's activities has been reflected through countless case studies, commendations and awards, NPI would like to see a controlled study of the organization's impact rather than relying on discrete examples of success. As a leader in residential rehabilitation programs, a detailed study of DSF's effectiveness would be greatly beneficial to the field.

Despite the lack of detailed studies on program efficacy, NPI feels that details of DSF programs provide prima facie evidence of social benefit. Given the dearth of rehabilitative programs for former felons, DSF appears to be a leader in residential education programs. Additionally, while DSF does not receive any government funding, the organization would be well served by better measuring its impact in order to justify funding for replications of the DSF model.

In addition to measuring the overall effectiveness of DSF, detailed recording and analysis of outcome data would help DSF hone its programs for maximum effectiveness. For example, while residents receive vocational training in a variety of fields, it is unclear which training programs result in successful job placements after graduating from DSF, especially in challenging economic conditions.

TRANSPARENCY

DSF files its Form 990 with the IRS each year and its financial statements are audited regularly audited by the accounting firm Deloitte & Touche LLP.

Historically, DSF has filed its Form 990 with the IRS approximately 12 months after the close of each fiscal year. NPI suggests that DSF should file its form with the IRS more promptly so that prospective donors have a more current view of the state of the organization.

DSF Accomplishments

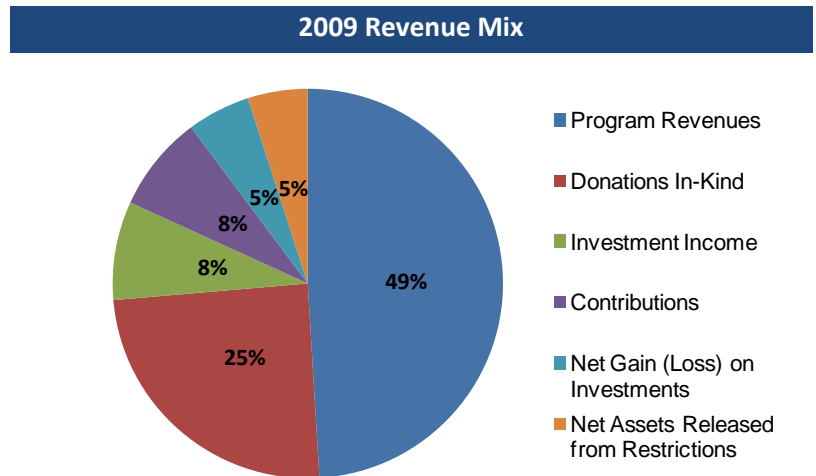
- Graduated 18,000 individuals
 - Over 10,000 formerly illiterate people have received high school equivalency degrees
 - Over 1,000 have graduated with a diploma from DSF's state accredited post-secondary three-year program
 - 50 students have received an accredited BA through Golden Gate University or San Francisco State University
- Over 100 at-risk students have graduated from the Life Learning Academy (graduation rate of 90%, with 88% going on to higher education)

FINANCIAL OVERVIEW

REVENUE

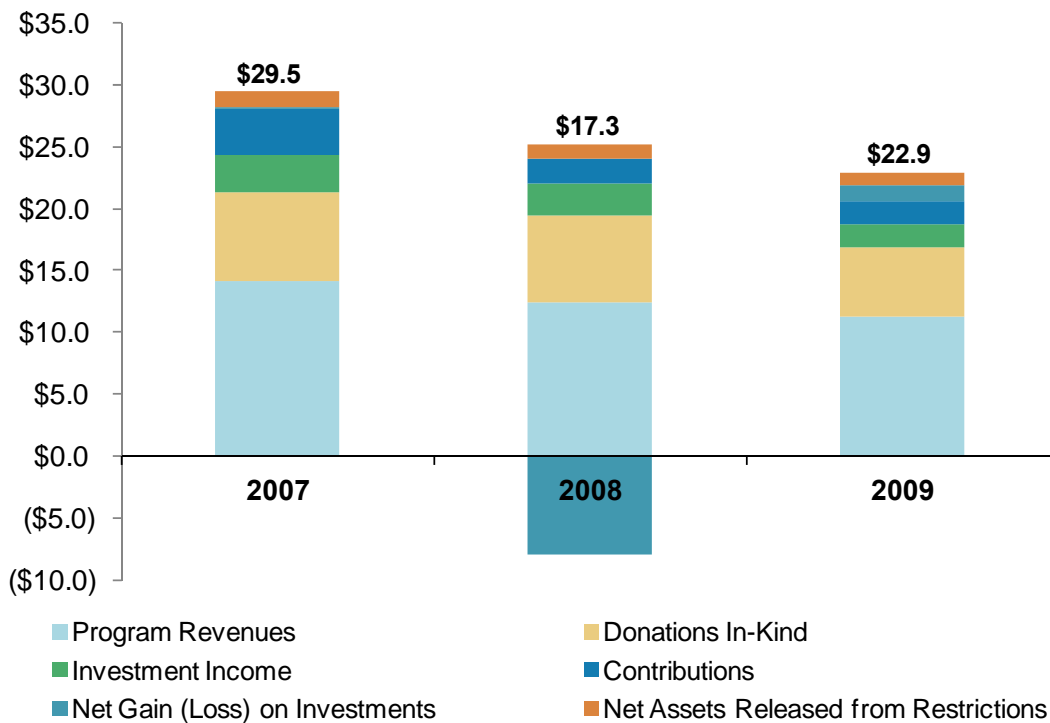
Approximately half of DSF's support and revenues come from retail sales and services performed by the organization's social enterprises. Additionally, another quarter of DSF's support and revenues come from donated professional services.

By minimizing reliance on purely financial donations, we believe that DSF is well-positioned to withstand a protracted economic recession. With less than 10% of funding coming from monetary contributions, DSF mitigates the risk of a debilitating reduction of funding from a large donor.



Revenue Mix Over Time

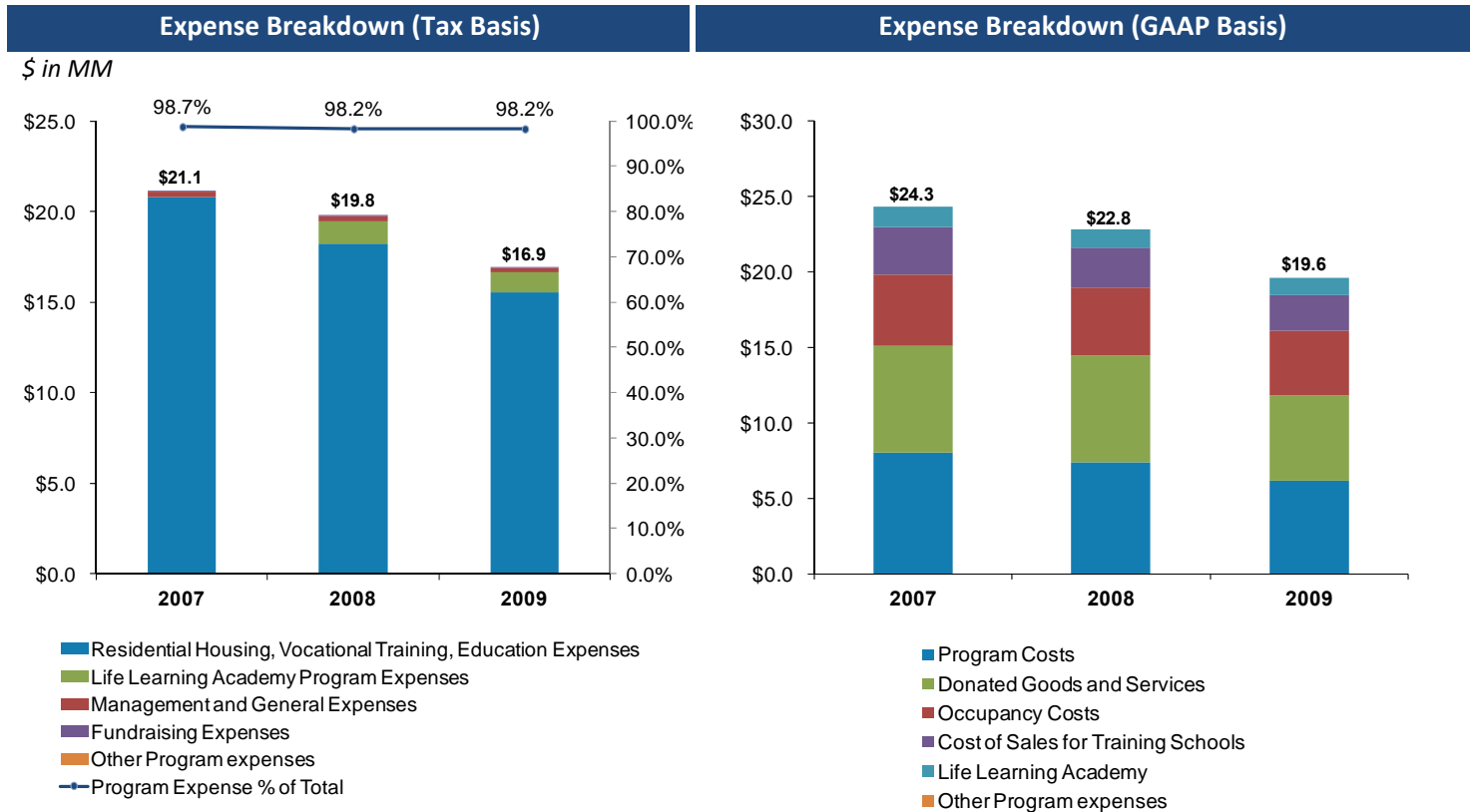
\$ in MM



While Total Support and Revenues has fluctuated greatly over the past three years, much of this is due to realized and unrealized investment performance. When normalized for investment performance, Total Support and Revenues has declined by 13% a year, in-line with other charities evaluated by NPI.

EXPENSES

DSF is a very lean organization, with minimal amounts of expenses spent on general and administrative expenses. In 2009, of \$16.9MM of expenses (tax accounting basis), \$16.6MM was spent on programs, while only \$258K and \$47K were spent on management/general expenses and fundraising expenses, respectively.



While certain expenses, such as facility operations, depreciation and amortization have not been allocated among program and support services, Deloitte and Touche has deemed the amount allocatable to support services to be immaterial.

As a percentage of revenue, excluding gain/loss on investments, DSF's expenses have remained relatively flat from 2007-2009 (fluctuating between 83% and 90%), indicating a low fixed cost structure that should be well suited to cope with a weak economy.

With an average of 1,500 residents at DSF throughout the year, the organization's all-in cost per resident is approximately \$12,000. However, given that residents generate \$11MM a year of revenue for DSF, we feel that program revenues should be taken into account when evaluating cost per resident. Doing so reduces the cost per resident dramatically, to approximately \$4,000.

Also of note is that DSF generates significant cash-flows from operations and maintains a high cash balance, supporting the viability of the organization.

Detailed Financial Statement

Fiscal Year Ended December 31

	2007	2008	2009	<i>Source:</i>
Revenue and Expenses (GAAP Accounting Basis)				
Support:				
Donations In-Kind	\$7,073,411	\$7,078,584	\$5,641,280	<i>Audited Financial Statements (GAAP)</i>
Contributions	3,746,282	2,016,853	1,831,930	<i>Audited Financial Statements (GAAP)</i>
Revenue				
Program Revenues	14,172,345	12,392,493	11,256,235	<i>Audited Financial Statements (GAAP)</i>
Investment Income	3,014,882	2,536,662	1,877,330	<i>Audited Financial Statements (GAAP)</i>
Net Realized and Unrealized Gain (Loss) on Investments	164,381	(7,957,944)	1,201,627	<i>Audited Financial Statements (GAAP)</i>
Net Assets Released from Restrictions	1,305,288	1,204,897	1,137,151	<i>Audited Financial Statements (GAAP)</i>
Total Support and Revenues	\$29,476,589	\$17,271,545	\$22,945,553	
% Growth		(41.4%)	32.9%	
% Growth, Excluding Investment Performance		(13.9%)	(13.8%)	
Expenses:				
Program Costs	\$8,041,303	\$7,370,646	\$6,165,920	<i>Audited Financial Statements (GAAP)</i>
Occupancy Costs	4,708,344	4,491,989	4,300,023	<i>Audited Financial Statements (GAAP)</i>
Donated Goods and Services	7,073,410	7,078,584	5,641,281	<i>Audited Financial Statements (GAAP)</i>
Cost of Sales for Training Schools	3,160,241	2,687,409	2,361,763	<i>Audited Financial Statements (GAAP)</i>
Delancey CIRCLE's Life Learning Academy Expenses	1,305,288	1,204,897	1,137,151	<i>Audited Financial Statements (GAAP)</i>
Other Program expenses	(32,454)	12,751	10,824	<i>Audited Financial Statements (GAAP)</i>
Total Expenses:	\$24,256,132	\$22,846,276	\$19,616,962	
% of Revenue, Excluding Investment Performance	82.8%	90.6%	90.2%	
Revenue Less Expenses	\$5,220,457	(\$5,574,731)	\$3,328,591	
OTHER GAIN - Embarcadero Triangle San Francisco Facility	\$0	\$10,176,458	\$0	<i>Audited Financial Statements (GAAP)</i>
Change in Assets	\$5,220,457	\$4,601,727	\$3,328,591	
Cash Flows from Operating Activities	\$6,504,020	\$3,761,369	\$3,252,811	<i>Audited Financial Statements (GAAP)</i>
Expenses by Function (Tax Accounting Basis)				
Residential Housing, Vocational Training, Education Expenses	20,815,944	18,252,999	15,530,889	<i>IRS Form 990 (Tax)</i>
Life Learning Academy Program Expenses	<i>n.a.</i>	1,172,390	1,103,036	<i>IRS Form 990 (Tax)</i>
Management and General Expenses	261,043	303,970	258,632	<i>IRS Form 990 (Tax)</i>
Fundraising Expenses	18,904	48,585	47,315	<i>IRS Form 990 (Tax)</i>
Total Expenses	21,095,891	19,777,944	16,939,872	
Program Costs as a % of Total Expenses	98.7%	98.2%	98.2%	
G&A as a % of Total Expenses	1.2%	1.5%	1.5%	
Fundraising as a % of Total Expenses	0.1%	0.2%	0.3%	
Cost per Beneficiary				
Average Residents			1,500	<i>Website</i>
Total Expenses, Excluding Life Learning Academy			\$18,479,811	
Cost per Resident			\$12,320	
Total Expenses, Less Program Revenues			\$5,683,637	
Cost per Resident, Less Program Revenues			\$3,789	

THIRD PARTY RATINGS

- **Charity Navigator** rates the organization 3 out of 4 stars (Note that DSF's website currently indicates a 4 out of 4 star rating which likely has not been updated since Charity Navigator updated its methodology and ratings). Deductions in the Charity Navigator calculation include:
 - No disclosed whistleblower policy
 - No disclosed process for determining CEO compensation -- **NPI:** given that the CEO for the past 40 years has never taken a salary, this does not seem to pose an immediate concern. However, NPI would suggest that DSF disclose a policy for determining CEO compensation to allay future donor concerns.
 - CN indicates that the DSF website does not include readily accessible information about:
 - Audited Financials -- **NPI:** Audited financials are not published on the DSF website but are included with their IRS filings and freely accessible
 - Form 990 -- **NPI:** DSF Form 990s are readily accessible through www.guidestar.org
 - Key Staff Listed -- **NPI:** While DSF's website includes a large amount of content that is not all intuitively placed, NPI found officer and director bios linked on their FAQ page as well as site map: <http://www.delanceystreetfoundation.org/dsboard.php>
- **Greatnonprofits.org:** 22 user reviews with an average rating of 5 out of 5 stars: <http://greatnonprofits.org/reviews/profile2/delancey-street-foundation>
- **Yelp.** Many of DSF's social enterprises are rated on Yelp:
 - Delancey Street Restaurant: 4/5 stars
 - Crossroads Cafe: 4/5 stars
 - Delancey Street Moving & Trucking: 5/5 stars
 - Delancey Street Christmas Tree Lot: 4.5/5 stars

GET INVOLVED

- Be a customer: <http://www.delanceystreetfoundation.org/enterprises.php>
- Donate: <http://www.delanceystreetfoundation.org/support.php>
- Start an organization like DSF. DSF Institute for Social Renewal: http://www.delanceystreetfoundation.org/circle_rep_socrenew.php

DISCLOSURES

Kent does not have any affiliation with Delancey Street Foundation and has never made a donation to the organization. NPI analysts and NPI as an organization do not receive any form of compensation from reviewed charities.

NPI has not reached out to DSF for comment on this report but will plan to do so in Q1 of 2012.