

NONPROFIT INVESTOR

INDEPENDENT RESEARCH FOR PHILANTHROPY

FareStart

Nonprofit Investor Rating:

BUY

Mission Statement

FareStart provides a community that transforms lives by empowering homeless and disadvantaged individuals to achieve self-sufficiency through life skills, job training and employment in the food service industry.

Financial Overview

\$ in MM, Fiscal Year Ended December 31

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Revenue and Support	\$5.2	\$5.4	\$6.1
Operating Expenses	\$5.5	\$5.6	\$6.2
% of Total:			
Program Expenses	60%	61%	64%
G&A	29%	27%	26%
Fundraising	12%	12%	10%

Year Founded: 1992

Contact Details

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SUMMARY

FareStart is a culinary job training and placement program for homeless and disadvantaged individuals. Its facilities, restaurants, cafes, and operations serve the greater Seattle area.

STRENGTHS

▲ **Successful job placement record.** In 2010, 195 adults enrolled in FareStart's training program. Of those, 102 adults graduated (52%), with 99 finding employment (97%) from a diverse list of 59 employers. Roughly 80% of those adult graduates were still in their jobs after 90 days of employment.

▲ **Wide variety of culinary services.** FareStart's flagship is the FareStart Restaurant, open weekdays for lunch and for Guest Chef dinners on Thursday. FareStart Café serves as the training site for youth enrolled in the Barista Training and Education program. FareStart also caters special events and sells contract meals to Seattle area childcare centers and homeless shelters.

▲ **Serves as a model for other non-profit food-service organizations.** FareStart helped launch and create Catalyst Kitchens, a nation-wide collaborative learning network of organizations that provide food-service job training. FareStart serves as a model member.

CAUTIONS

● **Funding concentration.** Roughly 18% and 20% of FareStart's unrestricted revenue for 2010 and 2009 were from governmental agencies. While these public contracts are spread over three governmental agencies, lack of governmental funds is still a source of funding risk.

● **Maturity in operations.** Currently, FareStart has no visible plans to expand its organization outside of Seattle. Instead, it is leveraging its experience to expand Catalyst Kitchens nationwide.

RECOMMENDATION: BUY

FareStart has achieved remarkable success in several areas: training programs, restaurants and cafes, and catering service. FareStart also has excellent financials and focuses on effectively managing costs. FareStart has reached a mature level of operations in the Seattle area; as such, another area of contribution consideration would be to support Catalyst Kitchens (which was launched by FareStart), which focuses on a nation-wide effort of job training in the food service industry.

OVERVIEW OF FARESTART ACTIVITIES

Founded in 1992, FareStart provides a community that transforms lives by empowering homeless and disadvantaged individuals to achieve self-sufficiency through life skills, job training and employment in the food service industry. It provides a 16-week culinary training program that combines classroom instruction with hands-on experience in the kitchen. As part of the City of Seattle's 10-Year plan to end homelessness by 2014, FareStart's culinary training programs help end – rather than manage – homelessness, as they strive to achieve long-term and sustainable solutions. FareStart also partners with YouthCare, which offers an 8-week Barista Training and Education Program for homeless youth, reconnecting them with their communities and preventing future homelessness.

FareStart was named the James Beard Foundation's 2011 "Humanitarian of the Year," a distinctive and one of the highest honors for food and beverage professionals working in North America.

PROGRAM RESULTS AND EFFECTIVENESS

FareStart students assist with the preparation of over 2,500 meals daily through the FareStart Restaurant, the FareStart Café at 2100, FareStart catering, and to homeless shelters, daycare centers, and Head Start programs. Over the past 19 years, FareStart has provided opportunities for nearly 5,000 people to transform their lives, while also serving over 4.5 million meals to disadvantaged men, women, and children.

In 2010, 195 adults enrolled in FareStart's training program. Of those, 102 adults graduated (52%) from the FareStart program, with 99 finding employment (97%) with 59 top employers. Roughly 80% of those adult graduates were still in their jobs after 90 days of employment. The impressive and growing list of employers include top restaurants and hotels such as Il Fornaio, the W Hotels, Whole Foods Market, Elliot's Oyster House, and Cupcake Royale.

Additionally, 42 youth were enrolled in the Barista Training & Education program in 2010, of which 23 youth were placed in employment during or after the program. 100% of enrollees have reengaged with their education by re-enrolling in high school, college, a GED program, or other educational opportunities.

In 2010, roughly 690 adults were provided with intake services and/or referrals for basic needs. Also, FareStart was able to provide 494,515 contract meals to area shelters.

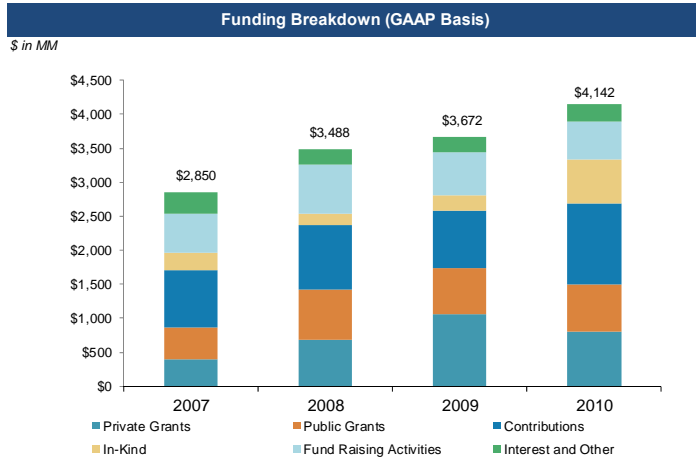
TRANSPARENCY

FareStart is audited by Finney, Neill, & Company, a Seattle based accounting firm. FareStart's consolidated financial statements include the accounts of FareStart and its subsidiary, FareStart Properties, LLC (FSP LLC). FareStart holds a 53% interest in FSP LLC and is the managing member. FSP LLC was formed in 2005 to help finance the construction of a 33,000 square foot facility, a \$12.8 million project that was paid through the completion of a \$8.5 million capital campaign, new market tax credits, historic tax credits and state funding.

In 2008, revenue from two government grants were recorded in the wrong accounting period. FareStart corrected the issues and has adjusted its grant revenue accrual recording process. In 2009, with regards to internal reporting issues, FareStart did not report all in-kind contributions within the recorded year. FareStart has taken steps to rectify the issue: developed a more comprehensive process, trained appropriate staff, and implemented a management review that ensures all in-kind contributions of goods and services are accurate and complete. It appears that such reporting weaknesses have been addressed; in 2010, no material weaknesses or significant deficiencies were identified.

FINANCIAL OVERVIEW

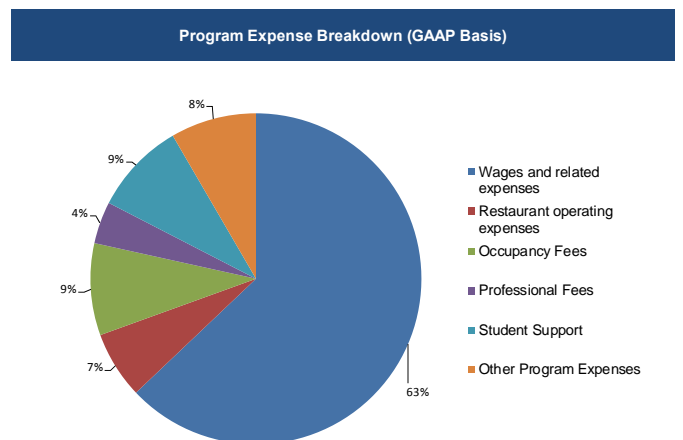
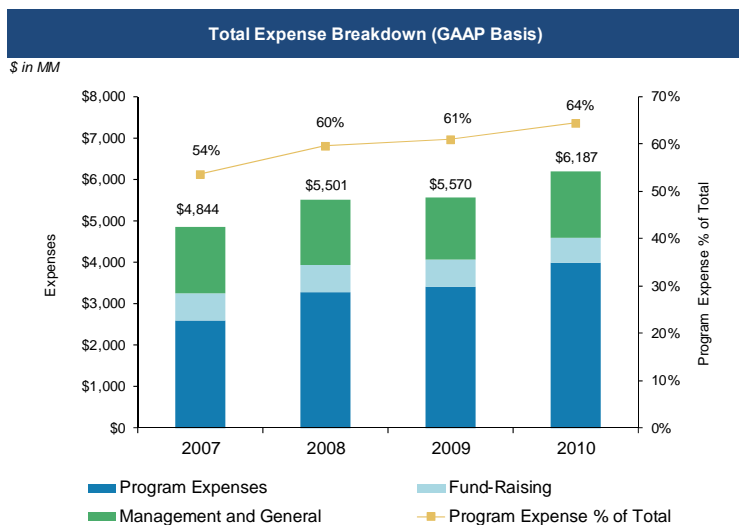
The FareStart franchises (restaurant, café, catering, etc.) are consistently very profitable at the operating level, with food service revenue more than covering cost of goods sold. This profit level allows each of the franchises to remain open, as well as support FareStart’s training efforts.



Revenue: While in-kind contributions are recorded on financial statements, a large majority of FareStart’s contributions – and likely reason for success – have been from the large amount of donated services, the value of which are not reflected on financial statements. In 2010, there were an estimated number of 1,452 FareStart volunteers.

Expenses: In 2010, program expenses of nearly \$4.0MM account for 64% of total expenses of \$6.2MM. Salaries and wages of \$2.5MM comprise the bulk of, or 63% of total program expenses. The next two largest program expenses are occupancy (\$0.4MM, or 9%) and student support (\$0.4MM, or 9%), which helped provide roughly 690 adults with intake services and referrals for basic needs. Notably, a portion of food waste in kitchen operations is allocated from food cost of goods sold to student support expenses. This is due to the fact that FareStart incurs above and beyond the waste that would normally be associated with a production kitchen that does not train students.

Cost per beneficiary has several moving parts within FareStart and is more difficult to quantify, as the beneficiaries and their respective benefits, are not entirely uniform. Direct beneficiaries in 2010 include the 195 adults enrolled in FareStart’s 16-week training program, 42 youth enrolled in the Barista Training & Education program, 690 adults provided with intake services, and the recipients of 494,515 meals (or 1,355 meals per day) to area shelters.



	2008	2009	2010	Source:
<i>Fiscal Year Ended December 31</i>				
Revenue				
Operating Revenue				
Food Service Revenue	\$ 2,009,038	\$ 2,106,361	\$ 2,204,494	Audited Financial Statements (GAAP)
Guest chef night	285,484	238,099	240,891	Audited Financial Statements (GAAP)
In-kind contributions - food	78,320	117,601	205,319	Audited Financial Statements (GAAP)
	2,372,842	2,462,061	2,650,704	
Cost of goods sold	743,606	780,198	886,979	Audited Financial Statements (GAAP)
Net operating revenue	1,629,236	1,681,863	1,763,725	
Unrestricted Public Support and Other Revenue				
Private grants	677,326	1,067,459	808,156	Audited Financial Statements (GAAP)
Public contracts	745,801	673,894	693,010	Audited Financial Statements (GAAP)
Contributions - operating	926,432	847,715	1,199,276	Audited Financial Statements (GAAP)
Contributions - capital projects	15,196	(3,069)	(12,753)	Audited Financial Statements (GAAP)
In-Kind contributions - other	171,602	219,511	649,473	Audited Financial Statements (GAAP)
Special events, net of direct benefits	717,903	629,214	560,778	Audited Financial Statements (GAAP)
Interest and other revenue	233,920	237,238	244,316	Audited Financial Statements (GAAP)
Total Unrestricted Public Support and Other Revenue	3,488,180	3,671,962	4,142,256	
Net Assets Released from Restrictions				
Satisfaction of purpose restrictions	68,262	24,752	235,248	Audited Financial Statements (GAAP)
Net operating revenue	5,185,678	5,378,577	6,141,229	
<i>% Growth</i>		4%	14%	
Expenses				
Program services	3,277,210	3,404,643	3,983,560	Audited Financial Statements (GAAP)
Management and general:				
FareStart Operations	744,949	655,610	806,335	Audited Financial Statements (GAAP)
FareStart Properties, LLC	834,139	858,529	794,414	Audited Financial Statements (GAAP)
Fundraising	644,967	651,369	602,816	Audited Financial Statements (GAAP)
Total Expenses	5,501,265	5,570,151	6,187,125	
Unrestricted revenue over (under) expenses	(315,587)	(191,574)	(45,896)	
Program Expenses as % of Total Expenses	60%	61%	64%	
Management Expenses as % of Total Expenses	29%	27%	26%	
Fundraising Expenses as % of Total Expenses	12%	12%	10%	

*Total expenses excludes operating COGS at the kitchen

ADDITIONAL DILIGENCE AREAS

FareStart has long served as a model of food-service social enterprise for other organizations around the country and beyond, and has recently expanded its reach into the national arena through the creation of Catalyst Kitchens (<http://www.catalystkitchens.org/>), a collaborative, learning network of programs using food-service job training, with the goal of greatly increasing the individual and collective impact of member organizations. FareStart serves as a model member. Additional areas of diligence would include researching more into Catalyst Kitchens, its operational impact, and future growth story.

By 2014, Catalyst Kitchens hopes to expand to 100 active members (currently 20), provide job training to 6,000 individuals and serve 10 million nutritious meals per year nationwide.

THIRD PARTY RATINGS

FareStart is rated the highest rating possible on Charity Navigator (4 stars out of 4 stars), which bases its ratings on financials (62.52/70, or 89%) and accountability & transparency (70/70, or 100%). With the BUY recommendation, we agree with Charity Navigator's assessment of FareStart's best in class current operations. That said, given the growth trajectory and limited expansion opportunities at the FareStart Seattle level, we believe individuals looking to support FareStart should explore supporting Catalyst Kitchens, an initiative started by FareStart that is more of a nationwide effort to address homelessness.

GET INVOLVED

- Individuals can support FareStart by helping them raise \$100,000 to build capacity in their programs for homeless, disadvantaged and at risk youth and adults.
- Volunteers can help in the contract kitchen for food prep, delivering meals, and helping with guest chef nights.
- For restaurateurs, consider hiring a FareStart graduate for employment.
- For more information about getting involved, please see: <http://www.farestart.org/help/lives/index.html>

DISCLOSURES

Emily does not have any affiliation with FareStart 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.