

Governor Scott McCallum

October 19, 2019

To Whom It May Concern:

I have been asked to examine WE Charity's organizational strategy of investing in real estate assets as a means to provide financial security in the long-term for the Charity, and to assess the overall efficacy of that strategy.

The purpose of the review is to provide an independent opinion on whether or not this has been an effective strategy for the charity in terms of providing financial security and maximizing the use of financial contributions from donors. I also examined the strategy in terms of best practices employed by other non-profits, and whether or not it is aligned with WE Charity's overall mission.

In order to conduct this review, I was provided internal documents and public records from WE Charity related to the organization's corporate and governance structure; financial transaction records for the sale and purchase of real estate by WE Charity; and other relevant supporting documentation.

It should be noted that I am not a member of the board of directors or otherwise affiliated with WE Charity.

This report is an independent assessment that constitutes my personal review of WE Charity's real estate activities. I believe I am well-placed to conduct this review given my long career of advising, assessing, and working with the non-profit sector.

In addition to serving as the 43rd Governor of Wisconsin, I have more than 40 years of executive experience leading organizations in the private, non-profit, and government sectors.

Previously, I served as the President and CEO of The Aidmatrix Foundation, a global technology non-profit that provides supply chain technology and internet information systems. During my tenure, Aidmatrix grew to globally transact \$1.5 billion annually with operations in six continents and over 52,000 user organizations.

I am actively involved in academia, having served as an adjunct professor in the School of Health and Medicine at the University of Wisconsin-Madison. I have taught public policy at the University of Wisconsin-Milwaukee, and was the Executive in Residence instructor for Northwestern University.

During my time in academia, I authored articles such as, "How Technology is Transforming Disaster Relief," "Managing Technology to Meet your Mission," and "Non-Government Organizations: Solving Society's Problems," included in the Handbook of Strategic Public Relations.

Currently, I serve as president of an international consulting firm with partners covering three continents. I also serve on the boards of two U.S.-based non-profit organizations, along with one in Poland and another in India. I have advised numerous other non-profit organizations.

WE Charity

WE Charity is a Canadian non-profit charity. It was founded in 1995 as a school club and was legally registered in 1997. Today it is an international charity and educational partner, which operates several charitable operations across North America and the UK, and several other countries around the world.

Its primary purpose and mission is the empowerment of youth around the world to improve the world locally and globally.

Beginning in 2005, the charity adopted a strategy of utilizing real estate as an organizational asset rather than an expense, whenever possible. In other words, it determined it was more financially prudent in the long-term to buy properties from which to operate rather than lease office space. The primary impetus for this approach came from the fact that, unlike many organizations of similar size and scale, WE Charity does not have a formal endowment.

As such, it had the dual need of finding suitable space for its operations and establishing a means to ensure the long-term financial stability of the organization. The charity's board of directors determined at an early stage of the organization's existence that real estate investment was the best way to meet both of these needs.

The charity began to formally enact this strategy in 2005, when it purchased property in the Cabbagetown neighborhood of Toronto, Ontario, Canada. Subsequent purchases were made thereafter as required to accommodate the incremental growth of the charity, expanding at one point to up to 10 properties in the neighborhood. All those properties were later sold as the charity transitioned into its new headquarters, known as the [WE Global Learning Centre](#) (WE GLC), which opened in 2017. This building anchors other properties the charity purchased for its own use in the Queen and Parliament district of Toronto. In total, WE Charity now owns six buildings in the area.

Key Areas of Focus Examined in this Review:

In order to carry out this review, I have identified five key areas of focus:

- Real Estate as a Reserve Resource
- Governance and Oversight by WE Charity's Board of Directors
- Alignment of Real Estate Strategy with WE Charity's Mission
- Use of Donor Funds
- Future Plans for WE Charity Real Estate

Taken together, these areas provide a comprehensive review of the rationale, implementation, results, and future feasibility of WE Charity's real estate strategy.

Real Estate as a Reserve Resource

A critical aspect of evaluating charities/non-profits is to examine their financial reserves, typically, liquid assets like cash, stocks, bonds, or other equities that can quickly be converted to cash. Some non-profits rely on less liquid but more consistent and reliable sources for their reserve funds like property, equipment/machinery, vehicles, etc. In the case of WE Charity, its reserves are largely backed by real estate investments.

Given non-profits and charities' strong dependence on donations and fundraising – which inherently diminish during times of economic uncertainty – they are particularly vulnerable to economic fluctuations. Reserves are a critical factor in determining whether or not the entity can survive the normal ups and downs of non-profit operations.

Similar constraints are faced by non-profits that rely heavily on support from governments, as many do. Again, this kind of funding is [subject to inconsistency](#) due to changes in governments and changing political or economic conditions, and further emphasizes the importance of reserves.

Leading charity evaluators like [Charity Navigator](#), [Charity Intelligence](#), and [Money Sense](#) all evaluate charities on a number of different criteria, including taking the entity's reserve situation into account as part of the review process.

Charity Navigator describes its evaluation of reserves in [this way](#):

“Charities depend upon their reserves of liquid assets to survive downward economic trends and sustain their existing programs and services. If a charity has insufficient working capital, then it faces the difficult choice of eliminating programs or staff, amassing debts and liabilities, or dissolving. On the other hand, when giving flows, those charities that build working capital develop a greater capability for expanding and improving their programs. We analyze a charity's working capital ratio by determining how long it could sustain its current programs without generating new revenue.”

Money Sense [follows a similar paradigm](#):

“A well-run organization will have a plan in place to ensure it has a reserve fund. But it's a tricky balance: Save too little and it'll have to shut the doors too quickly; save too much and the charity is sitting on cash that could be better spent. We give top marks to charities that hold three months' to three years' worth of reserves.”

Organizations that do not adhere to reserve models often fail. The 2008 financial crisis demonstrated how many charities/non-profits operate close to the line. Charitable donations in the U.S. dropped in the worst years of the recession ([7% in 2008 and another 6% in 2009](#)),ⁱ which led to [5% of all charities/non-profits failing](#) between 2008 and 2012.ⁱⁱ While 5% may sound like a low number, with [1.56 million registered non-profits](#) in the U.S., that represents over 7,800 organizations that no longer had the means to continue operating.ⁱⁱⁱ

Based on my long experience in working with, and within, the non-profit sector, I have found that investing in real estate is a sound, financially prudent means for charities and other non-profit entities to establish or support their reserve funds; and it can be viewed as a best practice for organizations to establish reserve funding.

Real estate, especially commercial real estate, provides a relatively low-risk (compared to investment in stocks or other more liquid financial products) and more predictable investment for non-profits, which need to be risk-averse by their very nature.

In WE Charity's case, although its real estate assets are not liquid, given the commercial nature of its properties and the [continually strong](#) commercial real estate market in Toronto, the

property investments made by WE Charity would enable it to quickly leverage assets for cash (e.g. through a secured line of credit) or quickly sell a property outright.^{iv}

Furthermore, interest rates are typically lower on lines of credit secured against properties than those that are unsecured, resulting in further savings should such borrowing ever become necessary.

WE Charity's real estate strategy also removes the pressures related to leasing office space in a Toronto market that continues to soar. According to a [recent report](#), "the low availability [of commercial office space] is driving prices higher, particularly in Toronto, where net rents for top grade office space surged 10.7 per cent to \$30.96 per square foot in 2017".^v

Property ownership also facilitates other forms of donor support. For example, the WE GLC is infused with technology infrastructure investments (fiber optic wiring, servers, digital screens, networks etc.) [donated](#) by Microsoft, TELUS, Cisco, SMART Technologies, and Siemens Canada. Such large-scale and long-term investments would not have been possible in a leased space.

Moreover, an independent report by Sotheby's, which analyzed the transactions and performance of WE Charity's real estate investments, determined the charity's investments have been sound and are generating excellent returns.

Governance and Oversight by WE Charity's Board of Directors

WE Charity has a strong governance structure with a highly qualified board of directors that is accomplished in fields of finance, corporate governance, business, education, and social justice.

Of particular note for the purposes of this review are those board members with extensive experience in finance, oversight and governance (e.g. Kannan Arasaratnam, MBA, CPA, Managing Director, FTI, and former Senior Manager at Deloitte and Director of Corporate Strategy at BlackRock financial; and two former senior officials from the Toronto District School Board and Toronto Catholic District School Board, who collectively managed billions in real property assets).

I have reviewed the minutes of WE Charity Board of Directors' meetings and examined the rationale behind decisions to purchase or sell WE Charity's real estate assets. In every instance, I have found the charity's decisions to be carefully planned, prudent, and well-executed.

All the real estate transactions I reviewed were clearly developed and conducted in keeping with the best long-term interests of the charity. All were fully considered by the Board to ensure alignment with WE Charity's mission, and that market value is paid/earned through sale.

I have full confidence that the Board will continue to prudently guide the organization in implementing WE Charity's real estate strategy for the long-term benefit of the organization and its stakeholders.

Alignment of Real Estate Strategy with WE Charity Mission

The use of the owned properties has always been consistent with, and in support of, the overall mission of WE Charity.

In the past, the property provided safe spaces for staff to live if they chose to (i.e. not mandatory). Upwards of 70 percent of WE Charity's staff are women, and the organization often operates in urban environments with inherent safety risks. Offering safe and secure housing was a prudent decision done in the best interests of the staff and the organization.

As the organization grew in the 2000s, there was a commensurate growth in salaries and benefits which made it unnecessary to continue to provide housing for employees. Properties that previously provided housing were sold or converted to office space.

Today, the use of sites like the WE GLC aligns and enhances the organization's ability to deliver its programming. For example, the entire first floor of the WE GLC is designated as an open community space, which provides access to resources and mentorship opportunities to students, teachers, families, and community organizations, who can take advantage of the unique space.

Stakeholders can utilize WE Charity's technological and physical assets, like Skype-enabled meeting rooms, computers, board rooms, and a digital amphitheater, to help expand their own reach and knowledge base.

WE Charity intentionally buys its properties in the very areas where it delivers many of its programs. These lower income communities benefit from the direct access to WE Charity's resources, and the large presence of the organization (over 1,000 total employees) helps stimulate investment in the neighborhood to boost its micro-economy.

All of these factors are well-aligned with WE Charity's overall mission to support youth and underserved communities.

Use of Donor Funds

WE Charity's long-standing real estate strategy to buy property rather than to lease office space has been supported by targeted contributions from donors to acquire real estate for the organization.

In addition to avoiding the substantial costs of leasing office space in one of Canada's most expensive markets, the targeted donations have given the charity assets that help ensure its long-term financial stability.

Acquiring property through these targeted donations also ensures that none of the organization's day-to-day fundraising activities need to be directed away from core programming to cover real estate/leasing costs.

WE Charity and its board have clear policies in place that ensure that donations from ongoing fundraising activities are not used for real estate purchases.

Based on the quality of its program delivery and its efficient operations, WE Charity has been able to attract large-scale contributions from donors in order to purchase property.

Some notable examples include:

- Virginia Benderly, a former board member, donated a significant seven-figure donation over 15-years ago to purchase real estate to benefit the charity and then left a large gift through her estate.
- An eight-figure donation by Hartley T. Richardson and the Richardson Foundation, which were the primary funders of the new WE GLC.
- Large seven-figure donations by David Aisenstat, the Gilgan Family Foundation, the Losani Family, and the Romano Family were all explicitly directed toward purchasing real estate to benefit the charity.

I find this to be an extraordinary practice, which other non-profits/charities should seek to emulate whenever possible.

These significant donations are a testament to the long-standing, positive reputation of the organization, which has consistently earned the highest of ratings for financial accountability, responsibility, transparency, and program delivery, from the established charity evaluators noted above. The latest ratings from each of these evaluators can be found online: [Charity Navigator \(94.74/100\)](#), [Charity Intelligence \(4 Stars out of 4\)](#), and [Money Sense \(which identified WE as one of Canada's Top 100 Charities\)](#).

Future Plans for WE Charity Real Estate

As noted above, the real estate investments made to date have been highly successful.

In addition to those returns and the financial stability generated by the investments, the new properties WE Charity purchased in the Queen and Parliament area of Toronto will serve as an anchor for future activities and program delivery.

Specifically, WE Charity is working to develop a social innovation “cluster” that will bring together non-profits, social enterprises, and community services.

Similar to another Toronto innovation hub, [the MaRS Discovery District](#), a not-for-profit that provides space and resources to start-ups working in the health, cleantech, fintech and enterprise software fields, WE’s “Community Hub” will focus on social innovation.

Beginning with the [WE Social Entrepreneurship Centre](#), WE wants to create a geographic cluster (i.e. one or more city blocks) in which community organizations, social enterprises, and young (35 and under) social entrepreneurs can access training, mentorship, services, and resources.

Just as with technology clusters, program recipients will be able to interact and network, learning from one another as well as from experts in a wide range of fields.

The cluster model has proven [highly successful](#) in recent years in [revitalizing inner-city neighborhoods](#).^{viii} Whereas most are technology or innovation focused, WE’s plans for a social innovation hub within the low-income community it is based in, is a laudable initiative that can serve as a model for other cities.

Conclusion

Based on my thorough review and my 40 years of experience working in the non-profit sector, I can conclude that WE Charity's investments in real estate assets represent a best-in-class example for other non-profits to follow.

The charity's investments have been prudent, low-risk, and carried out in close consultation with WE Charity's Board of Directors, who are well-qualified and experienced in overseeing such decisions.

This strategy has led to long-term, sustainable growth for the charity, while providing the security of a reserve fund that could be drawn upon should there ever be an economic need to do so.

Furthermore, by employing targeted donations for real estate purchases, the charity is able to ensure that funds generated through day-to-day fundraising activities are fully invested in charity program delivery.

While investing in real estate typically involves a lower-risk, lower-reward potential dynamic, WE Charity's returns and property appreciation have performed very well. This has facilitated further re-investment into the charity's core activities.

WE Charity's real estate investment strategy is a well-intentioned, well-executed model that can serve as best practice for other non-profit organizations of similar size and scale to follow in charting their own course to long-term financial stability, while maximizing the impact of their program delivery.

Sincerely,



Governor Scott McCallum
Wisconsin (2001-03)

ⁱ Reich, Rob, and Christopher Wimer. "Charitable Giving and the Great Recession." The Russell Sage Foundation and The Stanford Center on Poverty and Inequality, October 2012. https://inequality.stanford.edu/sites/default/files/CharitableGiving_fact_sheet.pdf.

ⁱⁱ Dietz, Nathan, Brice McKeever, Melissa Brown, Jeremy Koulis, and Tom Pollak. "The Impact of the Great Recession on the Number of Charities by Subsector and Revenue Range." National Center for Charitable Statistics, June 2014. <https://www.urban.org/sites/default/files/publication/24711/413166-report-the-impact-of-the-great-recession.pdf>.

ⁱⁱⁱ "The Nonprofit Sector in Brief." National Center for Charitable Statistics. Accessed October 1, 2019. <https://nccs.urban.org/project/nonprofit-sector-brief>.

^{iv} Wong, Natalie, and Bloomberg News. "Canada's Commercial Property Market Is Set for Another Blockbuster Year." Financial Post, January 15, 2019. <https://business.financialpost.com/real-estate/property-post/canadas-commercial-property-market-is-set-for-another-blockbuster-year>.

^v Powell, Naomi. "Toronto's Booming Tech Scene Is Squeezing Its Existing Supply of Office Space - and There's Little Relief in Sight." Financial Post, January 26, 2018. <https://business.financialpost.com/real-estate/property-post/torontos-booming-tech-scene-is-squeezing-office-space-and-theres-little-relief-in-sight>.

^{vi} Toussaint-Comeau, Maude, Robin Newberger, and Darline Augustine. "Inclusive Cluster-Based Development Strategies for Inner Cities." *Economic Development Quarterly* 30, no. 2 (2016): 171–84. <https://doi.org/10.1177/0891242416642104>.

^{vii} "The Missing Link: Clusters, Small Business Growth and ..." Accessed October 1, 2019. https://www.jpmorganchase.com/corporate/Corporate-Responsibility/document/ICIC_JPMORGAN_rprt_f.pdf.