DECISION ITEM

BOARD/COMMITTEE:	**BOARD OF DIRECTORS**
MEETING DATE:	**November 5, 2025**
AGENDA ITEM:	**Entity Structural Review (Part I)**
SPONSOR:	**Finance Committee**

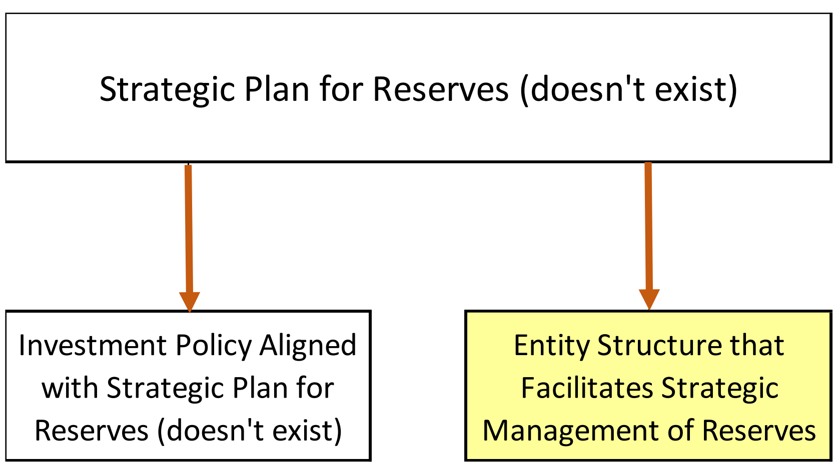
RECOMMENDATION:

The Finance Committee recommends that the Board authorize spending of up to $10,000 on professional fees for research and analysis on the advisability of establishing a private foundation that would hold and invest internally generated assets.

OVERVIEW:

The Regina Open Door Society faces three interrelated issues with respect to the governance and management of its financial reserves:

- Defining a strategic plan for its reserves;
- Managing the reserves in a manner that aligns with the strategic plan; and
- Identifying and implementing an entity structure that best positions RODS for success in achieving its mission.



Collectively, these issues represent by far the most pressing financial issue financial facing the Board.

Of the three issues, the overarching concern is the need for a strategic plan. It is also the most complex component, and will require input from both Board and staff. The remaining two issues are crucial supports for the strategy, but are easier to resolve.

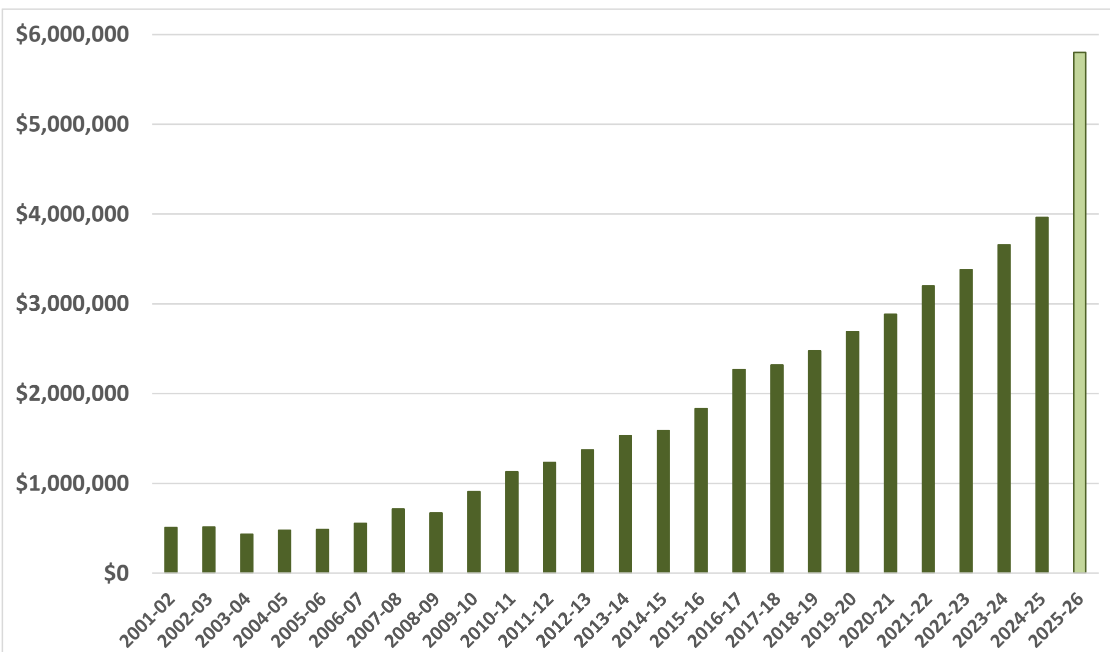
All three issues have existed for many years, and as with most unaddressed challenges, have become more acute with the passage of time. It appears that RODS is already incurring a financial cost due to a lack of engagement on these issues, and it is probable that the challenges posed by these issues will become even greater in the near future.

This decision item focuses solely on RODS' entity structure. The matter of how best to manage reserve assets will be addressed by the Finance Committee later in 2025-26. The strategic planning issue is much broader, and requires collaboration between the Board and management.

The goal here is for the Board to become suitably confident that it is discharging its governance responsibilities with respect to the safeguarding and utilization of RODS' reserves.

SUMMARY OF KEY ISSUES:

RODS' liquid reserves (i.e. cash, investments and accounts receivable net of liabilities) were $4.0 million at March 31, 2025, and this amount is expected to grow to $5.5-$6.0 million following the sale of the Smith Street properties. A 25 year history of RODS' reserves appears below:



Note: *the data point for March 31, 2026 is an estimate based on the valuation of the properties held for sale and the 2025-26 operating budget.*

RODS' reserves are extremely high in comparison to a sample of other Canadian settlement agencies (see Appendix A).

External audits by KPMG and the IRCC have repeatedly demonstrated that RODS has effective internal controls to minimize the risk of misappropriation and errors, however viewing RODS' assets from a broader perspective suggests that RODS' large reserve balances pose several ongoing threats:

- Stakeholders may view excessive reserves as evidence of weak management and governance.
- Excessive reserves are vulnerable to erosion from funders, through funding reductions and/or delays in payments.
- Large unallocated reserves discourage potential donors, as they may perceive RODS to be not in need of their support.
- Workplace culture may suffer if staff perceive large idle fund balances as indicating a lack of support from management and the Board.
- The absence of a plan for these funds creates exposure to poor decision making by future Boards. Strong governance would see the Board of Directors define a vision that would guide future management and directors in safeguarding, managing and deploying the funds.

RODS' large balance of liquid reserves has diverse origins. Most of the money is either directly or indirectly related to the 2013 real estate donation from Neisner Properties Inc. A small portion is derived from self-generated revenue (e.g. other donations and interest revenue), and the remainder is attributable to slippage (i.e. unspent funding) that has accumulated over RODS' 49 year history.

One solution to managing reserves is to amend RODS' structure to segregate its self-generated funds in a separate entity. Several options exist for the structure of such an entity; the process to establish an entity can be lengthy (4-12 months), but is relatively inexpensive.

BACKGROUND:

Since its establishment in 1976, RODS has delivered government programs for the benefit of newcomers to Canada. Examples of these programs include settlement assistance, language instruction and employment services.

RODS delivers government programs on a fee for service basis. This means that RODS is a party to contracts to deliver public programs and it invoices governments for eligible costs incurred in doing so. The fact that RODS typically only incurs costs that it can recover from governments makes it economically dependent on governments but also means that financial losses are highly unlikely.

From 1976 to 2012, RODS generated modest surpluses. These funds included unspent grants from the federal government, and small amounts of self-generated revenue.

The fact that RODS has never self-funded a meaningful share of its program services means that RODS had no obvious purpose for its surpluses, so they gradually accumulated.

RODS' financial world changed dramatically in 2013 when it received a $2.5 million real estate donation. This event permanently altered RODS' finances by eliminating the need to pay rent on its primary facility on Smith Street.

Naturally, RODS' reserves began to rise rapidly, growing from $1.4M in 2013 to $4.0M at March 31, 2025.

In 2024-25, RODS' Board decided that the donated real estate was no longer needed for RODS' operations, and should be sold. Expected proceeds of the sales are forecasted to lift RODS' liquid reserves to $5.5-$6.0 million at March 31, 2026.

Appendix A shows how RODS' reserves compare to a sample of other settlement agencies, based on the information disclosed by these entities at March 31, 2024.

There is evidence to suggest that RODS' reserve balances are weighing on the amount and timing of government funding. Notably, this same issue led to the creation of hospital foundations across Canada starting in the 1970s: governments viewed hospitals' donated funds as an opportunity to reduce funding. This same logic has also led to the creation of several library foundations in Canada in recent years.

The question here is whether RODS would benefit from a structural firewall that segregates its self-generated reserves while:

- preserving sufficient operational liquidity;
- optimizing decision making flexibility; and,
- mitigating the impact of the negative consequences currently being experienced.

ALTERNATIVES:

A high level overview of the various types of charities appears in Appendix B. An evaluation of alternative entity structures shows that the most suitable alternative to the status quo would be for RODS to establish a private foundation.

A Private Foundation – Further Analysis

A private foundation is a registered charity that is controlled by a family or a group with close ties. <u>There is no requirement for arm's length relationships, which is a crucial difference between a private foundation and a public foundation.</u>

Private foundations fulfill their charitable purposes by disbursing assets to other registered charities/qualified donees. The attraction of this structure is that it offers a very high level of control over grant-making, investment policies and governance.

Private foundations are best known for their tax planning benefits, however they are also recognized as a risk management tool to shelter assets.

As of December 31, 2021 (the most recent date for which public information exists), private foundations collectively had assets of $85.5 billion. Of this amount, $39.0 billion is held by a single entity (the Mastercard Foundation). In aggregate, the largest 10% of private foundations held nearly 95% of assets. The other 90% of foundations had an average balance of roughly $1 million, and median assets of perhaps $750,000. There appears to be a consensus among advisors that at least $1 million is desirable to establish a private foundation, however there is no minimum required amount.

<u>Private foundations must adhere to a CRA-imposed annual disbursement quota of 3.5% per year on the first $1,000,000 of assets and 5.0% on any excess.</u> Amounts transferred to RODS would qualify towards satisfying the disbursement quota.

Appendix C includes a summary of the advantages and disadvantages identified to date with respect to the status quo versus the establishment of a private foundation.

<u>IMPLEMENTATION:</u>

- It seems that no other settlement agency in Canada has established a private foundation, however Appendix A indicates that <u>RODS' financial situation is an outlier in the sector</u>. An Ottawa settlement agency called CCI (the Catholic Centre for Immigrants) has had a <u>public</u> foundation since 1996, however the foundation is primarily a fundraising agency (its investment income is only ~$20,000 per year), so its purpose differs somewhat from what is being contemplated by RODS.
- There would be one-time set up costs. Costs to establish a private foundation depend on its complexity. <u>A foundation established by RODS would be very basic, so set-up costs are estimated to be $10,000-15,000.</u>
- There would be incremental annual operating costs associated with a private foundation. A private foundation needs to file a T3010 return with the CRA, just like any other charity, and the annual financial statements would be audited by KPMG. Currently, KPMG charges about $20,000 for the annual audit and T3010 filing for RODS. The incremental cost for a foundation would be much lower ($5,000 or less?) given the relative simplicity of the engagement and the overlap that exists from auditing the revenue and payment processes at RODS.
- The entity would have its own Board, however it would be the same Board as RODS. A private foundation is able to have arms' length directors if desired (e.g. an investment professional), however this is not mandatory.
- The foundation would not have any employees. All operating decisions (including decisions regarding activities funded by the foundation) would be made by RODS, just as they are now. **<u>The sole responsibility of a foundation would be</u>**

investment management. All non-investment transactions would continue to be processed by RODS, just as they are now. The foundation would settle inter-entity balances with RODS monthly or quarterly.

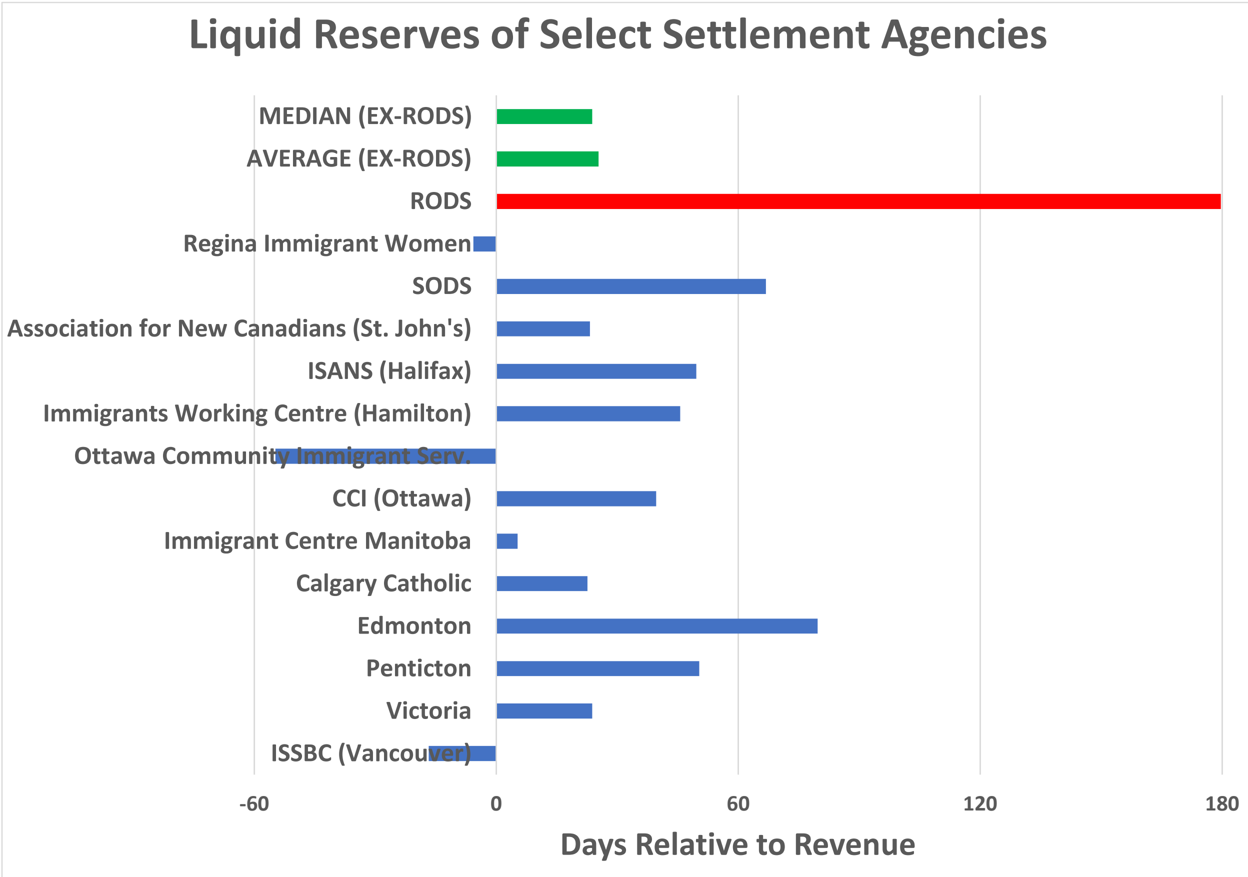
- The foundation would have its own periodic meetings and AGM. Quarterly meetings would likely suffice, and would be a 5-10 minute extension to RODS' regular board meetings.

RECOMMENDATION:

That the Board authorize the Finance Committee to spend up to $10,000 on professional fees for research and analysis on the advisability of establishing a private foundation that would hold and invest internally generated assets.

The Finance Committee would report back to the Board on its findings in the fourth quarter of 2025-26. If the Finance Committee supports the creation of a new entity, a decision item to this effect will be brought to the Board.

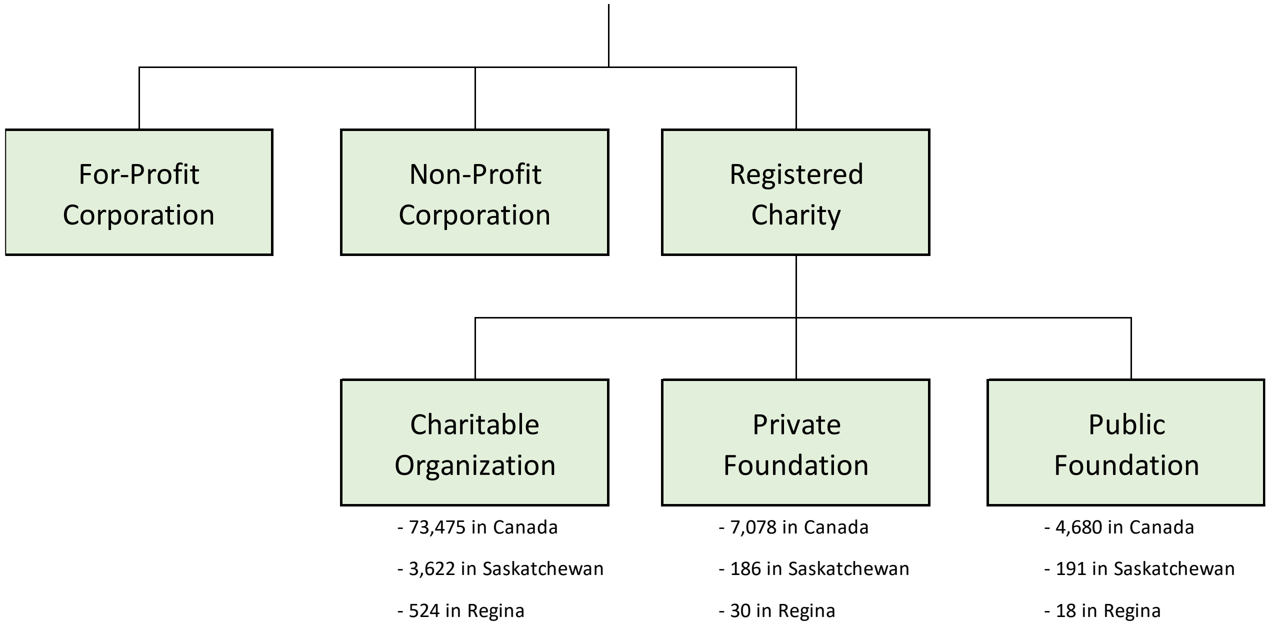
APPENDIX A
Comparative Liquidity Analysis



Conclusion: : Following the sale of its real estate properties, it is expected that RODS will have approximately $5,500,000-6,000,000 of financial reserves at March 31, 2026. This would represent roughly six months of revenue in a sector in which other agencies have only a small fraction of this amount.

APPENDIX B

Commonly Used Entities



Notes:

- All three types of registered charities are:
    - involved in the gathering and management of assets; and,
    - are exempt from income tax and can issue charitable receipts to provide tax relief to donors.
- The difference between foundations and charitable organizations is that foundations are primarily engaged in asset gathering, asset management and making grants, whereas charitable organizations are actively engaged in carrying out charitable activities. It is sometimes said that "charities are the doers and foundations are the givers."
- Public foundations differ from private foundations in terms of how they are governed. A public foundation is governed by an arm's length board where more than 50% of directors deal with each other at arm's length. In contract, private foundations can be governed by a related group of persons.
- Charities are said to be related if they are "of a common mind". It is expected that a foundation created by RODS would have the same board members as RODS, which means that the CRA would view the two entities as being related. For this reason, a public foundation is not a suitable option for RODS.
- According to Blumbergs Professional Corporation, private foundations have been growing at a higher rate than other type of charity in recent years.

APPENDIX C
Summarized Pros and Cons of a Private Foundation
Ranked in Terms of Perceived Significance

Advantages of Establishing a Private Foundation:

One-time

- none

Ongoing

- Provides RODS' Board and management with enormous flexibility with respect to the timing of the implementation of its strategy for reserves management. This is especially valuable if the strategy involves periodic opportunistic spending (i.e. versus spending on "one big thing" or program spending that involves disbursing cash at regular intervals).
- Clearly defines RODS' intention to be more than a provider of government programs (i.e. RODS > DoorDash)
- Places RODS on equal footing with other settlement agencies in terms of funding and advances (annual savings $20,000++ IF recognized by IRCC);
- Enables fundraising opportunities that do not exist with a single entity structure;
- Instills greater confidence in donors, as funds are clearly segregated and beyond the reach of government;
- Simplifies RODS' financial statements, allaying concerns of government funders that public money is being used to deliver non-government programs;
- Avoids endless explanations to stakeholders about fluctuations in RODS' annual surplus caused by changes in the fair value of investments;
- Provides a measure of flexibility in reporting RODS' annual results, enabling RODS to better tell its story; and,
- Explicitly incentivizes RODS' management and staff to develop and implement strategic initiatives.

Disadvantages of Establishing a Private Foundation:

One-time

- Incremental cost to establish foundation ($15,000?);
- Large accounting loss ($3 million+) to be reported by RODS in year of initial endowment;
- Training and documentation needed for Board and administrative staff; and,
- Requires careful communication with funders and other stakeholders.

Ongoing

- Adds complexity to cash management because of the need to balance invested reserves with operational liquidity needs;

- Exposes RODS to criticism of being less transparent financially because it is holding assets in a different entity;
- Small incremental annual cost for audit and T3010 ($5,000 per year?);
- Adds 1-2 hours+ annual Board commitment, and slightly lengthens learning curve for new Board members and accounting staff; and,
- Incremental financial administration arising from the need to clearly document the reason for transfers between the foundation and RODS.

Conclusion:

Five major ongoing benefits have been identified with respect to establishing a private foundation. A number of smaller benefits have also been noted.

Some drawbacks have also been noted, including start-up efforts and incremental ongoing administrative burdens, particularly with respect to cash management and communication.