BLENDED FINANCING FOR IMPACT:

TOOLKIT FOR SOCIAL FINANCE & SUPPORTIVE HOUSING

For Housing Providers & Mental Health Practitioners

March 2013

OVERVIEW

This toolkit has been prepared by the MaRS Centre for Impact Investing and the Housing Services Corporation as one component of a research and education project for a group of supportive housing providers in Canada who have a focus on mental health and concurrent disorders. The Nonprofit Finance Fund (NFF) also provided a very generous contribution of resources for the toolkit.

The objective of the **Blended Financing for Impact** project is to provide a clear pathway for supportive housing providers to learn about and engage in alternative methods of financing for improving and developing new dedicated housing units in Canada. This project builds upon the work presented in the Mental Health Commission of Canada (MHCC) report *Turning the Key: Assessing Housing and Related Supports for Persons Living with Mental Health Problems and Illnesses*. This toolkit is accompanied by a comprehensive research report that identifies and outlines a number of social finance models, identifies principles for an effective social finance strategy for the supportive housing sector, highlights challenges to further adoption of impact investing, and offers recommended actions to increase the supply of supportive housing through the use of social finance strategies.

The project provides an important development step, convening the supportive housing sector and building its capacity around innovative financing methods for supportive housing providers and providers of mental health services in Canada. Overall, we hope this project will support the minimum goal of developing and funding 100,000 supportive housing units and related supports over the next 10 years, as recommended in *Turning the Key*.

We thank all the members of the project committee for their wise counsel and encouragement. We hope that this toolkit provides a pathway to help achieve a common goal: to change lives and support recovery by providing people in need with housing and support. We know that without housing, there is no health.

Housing Services Corporation

Nonprofit Finance Fund®

MaRS | CENTRE FOR IMPACT INVESTING

Canadian Mental Health Association Toronto

FCMHAS Frontenac Community Mental Health & Addiction Services

HOUSELINK home community opportunity

LOFT

OPPORTUNITIES LIVE HERE mainstay HOUSING

Mental Health Commission of Canada / Commission de la santé mentale du Canada

TABLE OF CONTENTS

SECTION ONE: PRIMER FOR PRACTITIONERS

SOCIAL FINANCE AND SUPPORTIVE HOUSING

What is social finance?

Social finance, or impact investing, is an investment approach that focuses on achieving positive social and/or environmental impact alongside some form of financial return. This includes debt and equity investments that range from producing a return of principal capital to offering market-rate or even market-beating financial returns. Impact investing encourages positive social or environmental solutions at a scale that neither purely philanthropic supports nor traditional investment can reach.[1] Philanthropic grant making and program-related investments can also fall under the broad umbrella of social finance.[2] However, a narrow definition of social finance would only include investments that could generate some form of return.

Examples of impact investments could include:

- A $5,000 equity investment in a local community solar power firm such as SolarShare
- A $50,000 loan to a fair trade, organic coffee company such as Planet Bean Coffee
- A $450 million bond issue for a social housing project such as Regent Park, in Toronto, ON

Impact investing is a large and growing asset class. In the United States, JP Morgan and the Rockefeller Foundation analyzed five key sectors—affordable urban housing, rural access to clean water, maternal health, primary education and microfinance—and predicted that over the next 10 years the impact investing market in just these five sectors will grow to between $400 billion–$1 trillion.[3]

In Canada, the social finance marketplace is also expected to grow significantly. From persistent poverty to climate change, we are faced with pressing social and environmental problems at a local, provincial, and national level. Unfortunately, the ability of governments to tackle these challenges is constrained due to ongoing economic challenges and structural financial problems.

Social housing providers are longstanding innovators and practitioners of social finance approaches in Canada and around the world. In Canada, we have been experimenting with debt and equity financing approaches to purchase, build or improve housing with a positive social impact for decades.

What is supportive housing?

Supportive housing includes housing units or complexes funded specifically for persons living with mental illness and/or mental health problems, persons living with concurrent disorders (co-occurring mental health and substance use issues) or other persons who need support to live independently. Individuals living in supportive housing could include older adults managing illness, persons who are chronically homeless, persons with disabilities, or other persons with mental health challenges.[4]

[1] SVX. (2012). Invest for Impact: FAQs. Retrieved from http://thesvx.org/?page_id=27
[2] Socialfinance.ca. (2012). Glossary. Retrieved from http://socialfinance.ca/knowledge-centre/glossary/term/social_finance
[3] The Rockefeller Foundation. (2012). *Impact Investing: An Emerging Asset Class.* Retrieved from http://www.rockefellerfoundation.org/what-we-do/current-work/harnessing-power-impact-investing/publications
[4] Centre for Addiction and Mental Health, Canadian Council on Social Development. *Turning the Key,* p. ii.

"Housing First" is a variation of supportive housing that relies primarily upon private market apartments in scattered sites in the community. This is the approach that has been implemented in At Home/Chez Soi. Portable rent subsidies are key to this model, which enables tenants to rent apartments in locations they choose. The subsidies provide the difference between market rent and the amount available for rent through social assistance. Supportive housing providers have been using this approach to partner with private-sector landlords to increase the supply of rental housing where it is available.

In addition to ensuring affordability, supportive housing exists to provide supports to tenants. An affordable, secure home is essential to assisting individuals to realize their life goals. In Canada, affordability means that the market price or rent is affordable to low- and moderate-income households, measuring 30% or less of their gross household income, not including government supports. Affordable housing includes what we commonly refer to as social housing: housing built with the financial assistance of governments to provide assistance to low- and moderate-income households. It includes supportive housing, non-profit housing, co-operative housing and housing supported by rent supplements. These monthly rent charges are usually geared to income.[5]

What advantages do supportive housing providers have in the social finance marketplace?

Supportive housing providers have a number of key advantages in the social finance marketplace and might appeal to a variety of impact investors.

Signature impact investments have been affordable housing investments. The $450 million bond issue by Toronto Community Housing Corporation (TCHC) and the $1 million community housing bond issue by YWCA Toronto are consistently cited as leading examples of impact investments.

There is demonstrated interest in affordable housing by investors. According to a recent survey of Canadian impact investors, 75% would be interested in affordable housing bonds.[6]

Social housing is a proven impact investment with a track record. Social housing is a proven debt investment class with a low-risk profile and stable, but not sizable, returns. For example, it is known that there has not been a default on a social housing mortgage in Ontario since the mid-1980s. Social housing represents an infrastructure investment opportunity like other real estate opportunities in line with many investors' interests, with one key difference: demonstrable impact. There are few investments that have the proven ability to generate a modest financial return while reducing poverty by providing someone with a comfortable, safe place to live. If social housing were its own asset class with regularly tracked data, it would be considered a strong option for Canadian investors.

Supportive housing has the potential for scale that matches investor interest and capacity. The size of potential investments in supportive housing projects matches the interest and capacity of potential

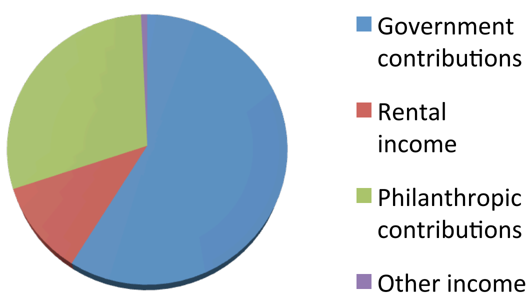
---

[5] Housing Services Corporation. (2012). Glossary. Retrieved from http://www.hscorp.ca/resources/glossary
[6] MaRS Centre for Impact Investing. (2011).

investors who are looking for larger opportunities to place capital. The cost of due diligence is often the same for an investment, whether it is $50,000, $5 million or $50 million. Many current impact investment opportunities face challenges because of their smaller scale. Large supportive housing real estate developments can be more of a fit for impact investors.

FINANCING FOR SUPPORTIVE HOUSING PROVIDERS

When considering innovative, alternative financing mechanisms for supportive housing, it is vital to understand the current sources of operating funding and typical costs for these facilities.



A. Where does ongoing operating funding for supportive housing providers come from?[7]

Although there is significant variability between organizations, ongoing operating funding for supportive housing providers generally comes from a variety of sources, as shown in Figure 1, below:

Government contributions (70 to 90%): In Ontario, for example, the vast majority of income derived by supportive housing providers is provided by the Ministry of Health and Long Term Care, Local Health Integration Networks (LHINs), the Canada Mortgage and Housing Corporation (CMHC) (note: these funds include the declining federal investments, which by 2030 will equal zero), and some municipal sources.[8]

Rental income (5 to 15%): The next most significant portion of income is derived from rental income provided by tenants, often under strict affordability criteria, largely calculated as Rent Geared to Income (RGI).

Philanthropic contributions (2 to 10%): In general, philanthropic contributions represent a small but growing portion of income. These contributions include individual donations and major gifts, foundation and corporate grants, and money raised by fundraising campaigns and events.

Other income (0-5%): Housing providers also generate income from interest, other earned revenue activities and other initiatives.

B. What are the typical costs for supportive housing facilities?

When considering the development of supportive housing units, there are three major cost centres: capital, operating, and programs and services costs.

Capital costs. There are a number of capital costs for the development of housing projects, including predevelopment, construction and permanent capital budgets.

---

7 These figures should be interpreted with caution, as they are not statistically representative. The proportions are designed to outline rough percentages of funds from a variety of sources. These figures are based on a small sample survey of five supportive housing providers in Ontario.

8 Details on other provinces can be found in *Turning the Key* (Centre for Addiction and Mental Health, Canadian Council on Social Development. (2011). *Turning the Key*)..

a. Predevelopment: site selection, planning and feasibility studies, architectural drawings, environmental testing and community outreach;
b. Construction: hard (materials) and soft (labour, lawyers, consultants) costs for building; and
c. Permanent capital budgets: set aside for capital reserves in operating budget for repairs and contingencies.

In 2006, the estimated capital cost per unit in Ontario was $150,000–$200,000.[9] This figure is estimated to be roughly within the range of cost per unit today.[10]

Capital funding comes from a mix of federal, provincial and municipal governments. Federal and provincial governments will often provide a portion of financing in the form of grants or subsidies. Municipalities can contribute by eliminating property taxes, waiving development charges, land grants or contributing funds.

In addition, financial institutions and intermediaries like the CMHC provide Proposal Development Financing (PDF), seed funding, mortgage insurance, and partly forgivable loans.[11] Beyond these sources, housing providers can obtain support through in-kind donations, philanthropic contributions, private lenders, or mortgage financing.

Operating costs. Operating costs include management staff, utilities and maintenance. These costs are often referred to as Manageable Costs per Unit, which includes: building operating costs; contracted services, staff and external service providers; office supplies and miscellaneous administrative costs; corporate overheads such as office space, telephones, technology, insurance; and bad debt expense.[12]

These costs are often combined with ongoing capital costs for a Total Cost per Unit Calculation. This includes Manageable Costs per Unit, plus mortgages, taxes and capital expenditures divided by the total number of units; it is expressed as a dollar amount.[13] While these costs are common across social housing providers, there are increased costs associated with supportive housing providers specifically, as a result of the additional costs of tenancy support. The gap in operating costs can be financed by rent supplements and/or operating subsidies and contingency funds.

Program and services costs. Funding for personal support and care typically comes from ministries of health, health authorities and/or social services. Beyond government funding, supportive housing providers may obtain funding from user fees and philanthropy (individual donations and large

[9] Legislature of Ontario. (2006). *Affordable Housing Financing.* 2006. Retrieved from http://www.ontla.on.ca/library/repository/mon/15000/268446.pdf
[10] Given examination of a number of Ontario projects and the completed case studies. A recently completed business plan for a project in Espanola, ON, had a cost of $180,000 per unit.
[11] Canadian Research Network for Care in the Community. (2007). Fact Sheet: Supportive Housing from the Group Up: Frequently Asked Questions. Retrieved from http://www.crncc.ca/knowledge/factsheets/pdf/InFocus-SupportiveHousing-FromtheGroundUp-FrequentlyAskedQuestions.pdf
[12] Halton Community Housing Corporation. (n.d.) Performance Measurement Definitions. Retrieved from http://sirepub.halton.ca/cache/2/yysycz45h0xjy3qylzzwn2rs/12277408112012111702957.PDF
[13] Halton Community Housing Corporation. (n.d.) Performance Measurement Definitions. Retrieved from http://sirepub.halton.ca/cache/2/yysycz45h0xjy3qylzzwn2rs/12277408112012111702957.PDF.

gifts).[14] These costs can be combined with ongoing capital and operating costs for a Total Cost per Unit.

[14] Canadian Research Network for Care in the Community. (2007). Fact Sheet.: Supportive Housing from the Group Up: Frequently Asked Questions. Retrieved from http://www.crncc.ca/knowledge/factsheets/pdf/InFocus-SupportiveHousing-FromtheGroundUp-FrequentlyAskedQuestions.pdf

SECTION TWO: CASE STUDIES

Important lessons can be learned from existing social housing models that have employed social finance approaches. In order to develop the recommendations found here, it was important to complete a series of case studies depicting the use of social finance in social housing. A set of criteria was established to inform several in-depth case studies and some shorter case studies, as well as to document trends identified in, and lessons learned, from the research. Although the case studies here focus on broader social housing experiences, the information is also applicable to the supportive housing sector.

Criteria

A set of criteria was established for case studies, including:

- **Affordable housing focus:** Each project must have a focus on affordable housing, though not limited to supportive housing projects. This did not exclude projects that feature market rent units.
- **Investment capital:** There must be some form of debt or equity investment capital in the project.[15] This investment need not represent the entire project cost.
- **Geography:** Case studies focused on projects in Canada, with potential inclusion of some American and British examples.
- **Project purpose:** The housing project could be one or a combination of the following: acquisition, new development, refurbishment and/or retrofit (including changes made for energy efficiency).
- **Beneficiary:** Although private developers might be involved in the project, the ultimate beneficiaries were non-profit or co-operative housing providers who were maintaining or adding permanent stock to the affordable housing marketplace.

In-depth case studies

In-depth case studies were completed on the following initiatives:

Calgary Homelessness Foundation, Bob Ward Residence, Calgary, AB. In 1998, the Calgary Homelessness Foundation (CHF) was established as a non-profit organization to facilitate capital funding for affordable housing projects. One of its first projects was the Bob Ward Residence, a $4.5 million, 61-unit complex for persons facing mental health challenges. Tenants are low-income earners between the ages of 35 and 64; and the primary diagnoses of clients are schizophrenia, depression or affective disorders.

The model CHF employed was a financing and in-kind support approach that included funding from the public sector (all three levels of government), private donations, and in-kind support from local builders. The City of Calgary provided the site (valued at $935,000), governments provided capital funding (over $1 million), CHF engaged in focused fundraising efforts and the Calgary Home Builders Foundation provided $1 million in direct funding and in-kind support.

[15] Exceptions could be made in the case of a very unique financing model.

The Bob Ward Residence opened in October 2003, six months earlier than planned, mortgage-free and half a million dollars under budget. The project was the first of its kind in Calgary and is a model of coordinated fundraising and leveraged government support, including grant and land contributions. This approach to supportive housing, and the project's success in creating permanent housing solutions, were also factors in the City of Calgary's ability to close some shelter beds.

St. Clare's Multifaith Housing Society, 25 Leonard Avenue, Toronto, ON. St. Clare's Multifaith Housing Society originated through Toronto Action for Social Change (TASC), an organization that focused on finding evicted street youth a place to live. St. Clare's first affordable housing development success came in 2000 at 25 Leonard Avenue, a former medical office building that was converted into 77 units of affordable housing, with a total project cost of $8.1 million.

The project was divided into two phases, employing a novel social finance approach that blended grant and investment financing. In Phase One, the federal government (in partnership with the City of Toronto) gave St. Clare's $2.65 million and St. Clare's fundraised another $100,000. A conventional first mortgage was secured for $1.7 million, and an alternative lender, the Canadian Alternative Investment Cooperative (CAIC), was the lender on a second mortgage for the final $300,000. This mortgage financing approach provided an alternative way for St. Clare's to finance development without using CMHC insurance. In Phase Two, the federal government and the City of Toronto provided St. Clare's with $1.5 million in grant financing. St. Clare's provided $1.6 million in equity by extending the amortization of the first mortgage when the building was refinanced.

Beyond the use of blended financing approaches, there were a number of additional lessons from this model. First, St. Clare's was able to secure capital via the cash flow stream of five-year guaranteed rent supplements. Potential investors and lenders saw this as a stable income stream that would provide additional stability for the project beyond the governments' grant commitments. Second, there is an opportunity for housing providers to leverage equity in existing assets in order to finance new development. Third, there was an element of assumed risk: given their St. Clare's track record, the Board of Directors was willing to understand and assume risk in order to expand their housing portfolio.

YWCA Toronto, Elm Centre Project, Toronto, ON. The YWCA Elm Centre project is an innovative residential community located in the heart of downtown Toronto. The Elm Centre offers 300 affordable apartments for low-income women and their families, women living with mental health and addiction issues and families of aboriginal ancestry. The Elm Centre also houses YWCA Toronto's administrative headquarters, a 200-seat auditorium, meeting spaces and a restaurant. This $80-million initiative is a leading example of blended financing in affordable housing that has employed innovative social finance approaches to create one of Canada's largest housing projects in the last decade.

YWCA Toronto was able to employ a variety of financing strategies, including government loans (City of Toronto and Infrastructure Ontario), grants, credits and rebates, private grant contributions driven by sophisticated fundraising and a community housing bond. The breakdown of capital financing is quite remarkable: 42% of the funding was provided through government loans, 38%

through government grants and rebates, 19% through fundraising and 2% through the private debt offering.

The YWCA's financing model offers many key lessons. As with the St. Clare's example, the success of the YWCA's financing strategy is partially based on the guaranteed cash flow derived from rent supplements. The YWCA also demonstrated the potential and need for a sophisticated fundraising machine to raise philanthropic funds to finance affordable housing. Additionally, governments employed important levers beyond traditional grant financing, including loans, rebates and land grants. Finally, the YWCA demonstrated the capability of a non-profit organization to raise low-cost debt financing independently through a simple bond offering, as shown through the $1-million investment (10 years at 4% per year) made by the Muttart Foundation.

Centretown Citizens Ottawa Corporation, Beaver Barracks, Ottawa, ON. Centretown Citizens Ottawa Corporation (CCOC) is the owner and developer of Beaver Barracks, a 254-unit affordable housing project located on Metcalfe, Argyle and Catherine streets in downtown Ottawa, ON. The $65-million development of Beaver Barracks took place in two phases, comprising five buildings. The project mixes bachelor, 1-bedroom, 2-bedroom and 3-bedroom apartments and townhouses.

Like the YWCA, CCOC employed an innovative blended financing model, using various social finance strategies, including government grants, loans, credits and rebates, an alternative lender and internal financing (leveraging equity). CCOC received $19 million in combined federal/provincial funding in two phases under the 2008 program year of the Canada-Ontario Affordable Housing Program. CCOC also benefited from $12 million in grants and in-kind contributions from the City of Ottawa. In addition, CCOC financed a further $31 million through two debenture agreements with Infrastructure Ontario. Through a special mortgage arrangement with a religious order, CCOC secured an additional $1.5 million in low-cost mortgage financing at 2% per year.

The remaining financing came through an internal loan mechanism provided by CCOC itself. This internal financing was perhaps the most novel feature: a cumulative $2.25 million in loans at the Government of Canada Long-Term Bond Benchmark Rate for a 40-year term from CCOC's own assets. Now that the Beaver Barracks project is completed, CCOC owns and manages 54 properties with more than 1,595 units, combining both market rent and subsidized housing across downtown Ottawa.

LOFT Community Services and St. Anne's Place, Toronto, ON. A 110-unit, $2.4 million seniors' building that required $1.7 million in upgrades, St. Anne's Place serves seniors with mental health, addiction and physical challenges who were homeless. This project was funded by a blend of an existing CMHC mortgage, fundraising, a municipal loan and a Social Housing Renovation and Retrofit Program (SHRRP) grant. A significant fundraising gap gave the project a higher risk profile.

St. Anne's Place had been a general seniors' residence. The non-profit organization operating the facility could no longer sustain it and sold it to LOFT for $1. LOFT took the risk to convert the building into an apartment building for seniors with mental health, addictions and physical challenges who were homeless. When LOFT took over the building there were many vacancies; LOFT immediately began to accept at-risk seniors. Today, these individuals make up 85% of the residents and the building is at full occupancy.

LOFT assumed an existing CMHC mortgage for this property in the amount of $456,000. Initially, $2 million in donations from LOFT were required to upgrade the building. Later, the building required further upgrades; the City of Toronto provided a loan of $1 million (due in 2018) and an additional $1,728,000 in SHRRP grants were secured. In addition, 82% of the tenants have rent supplement funding. The mortgage is at an interest rate of 5.75% to be completed by 2020 (it was originally a 50-year mortgage). The loan from the city is without annual interest payments until 2018, and then at a rate of prime plus 1%.

It was necessary for LOFT to take significant risk to take on this project, but the risk was mitigated for LOFT because the organization had access to charitable dollars and a low-cost mortgage. The risk was acceptable to LOFT because their board, staff and service users (consumers) strongly believed that there was (and continues to be) a critical societal need to serve seniors with significant mental health and/or addictions challenges. LOFT believed that taking this risk was in line with its mission as a large non-profit charitable organization and decided to contribute its financial, management and donor resources to this project in the absence of sufficient government initiatives and community resources for homeless seniors with mental health, addictions and physical challenges.

In-depth case studies on these projects and others can be found in Appendix Two.

Short case studies

Short case studies on examples of social finance in social housing were completed on the following projects:

- Wood Buffalo Housing and Development Corporation, Regional Municipality of Wood Buffalo, AB
- Ottawa Community Housing, “Blend and Extend,” Ottawa, ON
- Toronto Community Housing Corporation, Regent Park, Toronto, ONWoodgreen Community Services, First Step to Home, Toronto, ON
- Stella’s Circle, Multi-Unit Acquisition Strategy, St. John’s, NFLD
- Frontenac Community Mental Health and Addiction Services, Kingston, ON

These short case studies can be found in Appendix Three of this paper.

Overall trends and lessons learned

The following trends were identified based on the completed case studies and associated research.

Housing providers have been experimenting with unique and innovative alternative financing approaches for more than a decade. The use of social finance for social housing in Canada is not new. Leading organizations and governments have been engaged in innovative alternative financing approaches for more than 10 years.

Alternative financing arrangements in social housing require long-term planning and cultivation of internal and external supporters. It is not possible to finance and build a supportive housing facility overnight. When factoring in social finance strategies, it is necessary to cultivate external supporters and investors, and build internal buy-in through ongoing communication and engagement. Supportive housing providers and new investors will need patience, as this process can take years to complete.

Some housing providers have greater flexibility to leverage new funding and unique arrangements without federal government involvement in debt financing. Although government support is a necessary condition for success, many housing providers have found greater flexibility without federal government involvement. A number of those studied indicated that they had greater flexibility without CMHC financing or mortgage loan insurance. Providers were able to leverage new and unique sources of funding without significant restrictions or covenants. If a decrease in CMHC insurance uptake is realized, the accumulated surplus from this program could be better served. As the recommendations suggest, the capital could be invested in a different type of social finance tool, such as a sector-based capital fund.

Government involvement at multiple levels is a necessary condition for success. To ensure success, all levels of government, including federal, provincial and municipal governments, should be engaged in some capacity. Their support can provide important leverage to secure other forms of grant and debt financing.

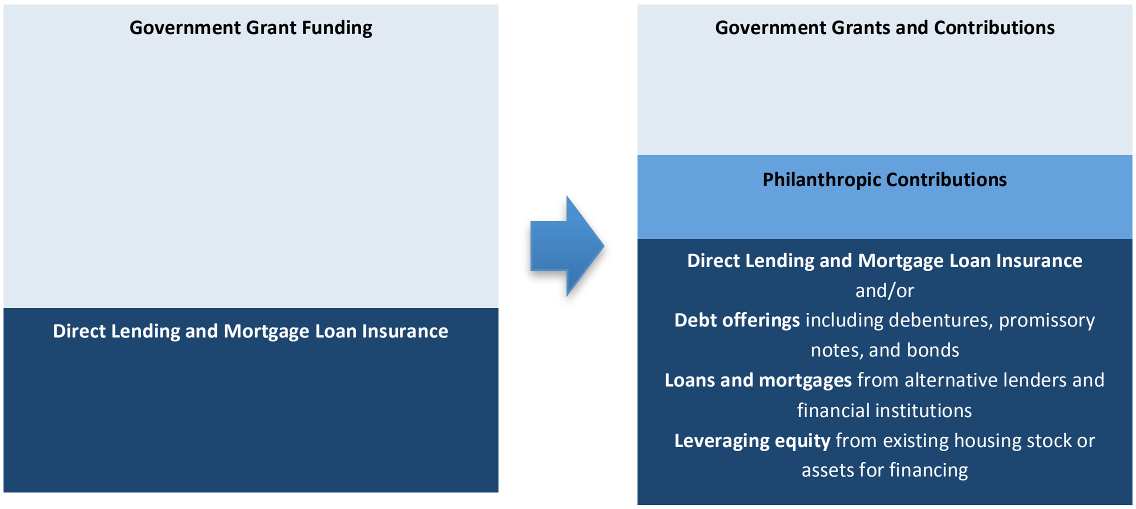
Governments are moving beyond traditional grant funding and using other levers to support the development of affordable housing. Governments have more tools at their disposal than just traditional grants. Many innovative governments have been successfully employing additional levers beyond grants, including eliminating or reducing development fees, granting municipal land, providing loan guarantees, creating investment incentives and even opening up alternative financial institutions for social housing providers. These tools are more important now given that government funding sources can be constrained.

Supportive housing providers require diversified, or blended, sources of capital funding, including grant and debt financing. It is not possible to finance a new housing project with a single source of government funding, nor is it possible to finance a project solely using private capital. Supportive housing providers are employing sophisticated strategies to obtain government, philanthropic and investment funds from a variety of sources to support development. This includes using ongoing rental revenues to address operating and debt-financing costs.

Sophisticated fundraising infrastructure may be required to support large-scale projects. There is often a need for significant grant money to support capital or operating costs for facilities that utilize social finance strategies. In all cases, a sophisticated and substantial fundraising infrastructure is required to attract grant funds or individual gifts, and charitable status is required to issue tax receipts to donors.

Smaller lenders play a large role in alternative financing for social housing in Canada. There are a small number of private lenders and investors in Canada providing financing to social housing providers. These relatively smaller lenders, like the CAIC or religious orders, play a vital (and outsized) role in supporting a large number of organizations engaged in alternative financing approaches.

FIGURE 2: CAPITAL FUNDING SOURCES FOR DEVELOPMENT OR ACQUISITION OF SUPPORTIVE HOUSING



Rent supplements have been used as stable revenue streams to support financing. Obtaining stable revenue is a challenge for affordable housing providers, but some organizations have leveraged rent supplements as stable revenue streams to support financing for the development of new units. The utilization of rent supplements can be just as cost-effective as a one-time allocation of capital funds. The benefits to government are that rent supplements spread the financial contribution over a longer time frame, realizing a lower annual liability, and these are often funds already dedicated within government budgets. However, while the fixed nature of rent supplements might prove favourable to government, housing providers' allocations do not increase in relation to increases in rent or operating costs. This means that without an increase in the number of units covered by rent supplements, providers are challenged by an ability to cover a decreasing number of units as operating costs increase. (Figure 3)

FIGURE 3: RENT SUPPLEMENTS VERSUS ONE-TIME CAPITAL PROJECT FUNDING

IN-DEPTH CASE STUDIES

Case Study One: Calgary Homeless Foundation—Bob Ward Residence, Calgary, AB

SUMMARY

- In 1998, the Calgary Homeless Foundation (CHF) was established as a non-profit organization to facilitate capital funding for housing projects. Its main objective is to collaborate with service agencies, government and the private sector in Calgary to develop plans for projects that provide access to housing for the homeless.
- The CHF conducts research and provides consultation and education for the homeless in order to help them achieve independence and stability.
- The CHF is driven by private-sector volunteerism and philanthropic contributions.
- The foundation became part of a joint venture with Horizon Housing and the Calgary Home Builders Foundation and secured municipal funding under the City's new plan. Together, these three organizations brought forth an innovative social housing project, which they named after home-building industry leader Bob Ward. The Bob Ward Residence comprises 61 apartments, ranging in size from 354-square-foot studio apartments for those with mental illness, to 1,608-square-foot, four-bedroom apartments for people with brain injuries.
- After years of design, fundraising and political lobbying, the Bob Ward Residence opened in October 2003, six months earlier than planned, mortgage-free and $500,000 under budget. Tenants are low-income earners between the ages of 35 and 64, and the primary diagnoses of clients are schizophrenia, depression or affective disorders.
- The CHF is currently working to implement the City of Calgary's 10-year plan to end homelessness by 2018.
- The CHF is in the process of developing a "community bond" project (inspired by Regent Park in Toronto), with a social finance incubator funded by the Alberta Treasury Branch.
- CHF capital projects are typically funded as follows:
    - 70% government funded
    - 30% through a combination of mortgages and donations
    - Interest-free Evergreen Line of Credit provided by First Calgary Savings

BASIC PARAMETERS

Project	Calgary Homeless Foundation (CHF)—Bob Ward Residence, Calgary, AB
Partners and corporate structures	Funding came from the public sector (all three levels of government), the private sector and the CHF
Total project size	$4.5 million
Investment total	Funding came from a variety of sources, including: ■ Human Resources and Development Canada: $1,000,000 ■ City of Calgary (provision of site): $935,000 ■ Calgary Homeless Foundation: $763,357 ■ Calgary Home Builders Foundation: $716,631 ■ Calgary Interfaith Housing: $500,000 ■ Calgary Home Builders Foundation (in-kind contributions): $173,572 ■ Canadian Pacific Charitable Foundation: $150,000 ■ Province of Alberta, Community Facility Enhancement Program: $125,000 ■ Alberta Real Estate Foundation: $100,000 ■ Horizon Housing Society: $100,000 ■ Canadian Oil Sands: $50,000 ■ Nexen: $25,000 ■ Imperial Oil Charitable Foundation: $20,000
Capital purpose	To create supportive housing for persons with mental illness and brain injuries.
Project description	The Bob Ward Residence comprises 61 apartments, ranging in size from 354-square-foot studio apartments for those with mental illness to 1,608-square-foot, four-bedroom apartments for people with brain injuries. It houses more than 70 people who require assistance and includes a special brain-injury rehabilitation unit. To further support those with special needs, the residence has a full-time housing coordinator and offers access to 24-hour on-call support.
Geography	Calgary, AB
Investor focus	Private sector financial and in-kind donations
Term	N/A (No mortgage)
Interest rate	N/A (Donations, Government funds)

Investment type	N/A
Cost of financing	N/A
Credit enhancements	N/A
Risk profile	Low
Legal supports	N/A
Timeline	2001—2003

POLICY OR REGULATORY LEVERS

No major policy or regulatory levers were moved or applied for this project.

KEY LESSONS

Key lessons learned include:

- The partnership's ability to leverage capital from the business community eliminated the financing risk.
- The long-term operating risk is reduced by the fact that the project is mortgage-free.
- A partner with expertise in providing housing for the specific client group manages the residence; as such, a portion of the project's success can be attributed to each partner's motivation and commitment to serving low-income households.
- A team with experience and diverse skills can enable a public-private partnership project to accomplish more than a single partner might accomplish on its own.
- The private sector played a significant role in the project's success. As mentioned, the CHF cultivated long-term relationships with various funding sources, brokered partnerships and secured philanthropic contributions. More than 150 private donors made contributions, ranging in value from $1,000 to $500,000. Additionally, many contractors and tradespeople who worked on the site donated materials or provided them at cost. The donations and in-kind contributions of the tradespeople was the primary factor behind completing the project $500,000 under budget.

POTENTIAL FOR SCALE OR REPLICATION

- There are a number of conditions that made this model possible:
- significant philanthropic funding and a private sector that is willing to reinvest in the community.
- Municipality willing to offer free land
- organizational capacity to handle significant donations
- The scale of the Bob Ward Residence is reasonable and could be replicated.

Case Study Two: St. Clare's Multifaith Housing Society— 25 Leonard Avenue, Toronto, ON

SUMMARY

- St. Clare's Multifaith Housing Society originated through Toronto Action for Social Change (TASC). In the mid-1990s, after helping evicted street youth find places to live, TASC started to look for a way to build affordable housing. TASC incorporated a legal entity, applied for charitable status and St. Clare's Multifaith Housing was created. Rather than attempt to develop a new building, St. Clare's acquired an existing property that could be converted to apartments.
- St. Clare's had its first success occurred in 2000, when they negotiated an offer on a former medical office building at 25 Leonard Avenue. The offices were converted to apartments and the building was fully occupied in December of 2001. In 2005, St. Clare's added 26 more apartments.
- Since its initial success at 25 Leonard Avenue, St. Clare's has developed an additional 173 units of new, affordable housing in Toronto and has another 190 units of new affordable housing currently under construction.

BASIC PARAMETERS

Project	St. Clare's Multifaith Housing Society—25 Leonard Avenue
Partners and corporate structures	St. Clare's Multifaith Housing Society City of Toronto Government of Ontario Human Resources and Social Development Canada First National Financial LLP Canadian Alternative Investment Cooperative (CAIC)
Total project size	Phase 1: $4.75 million Phase 2: $3.1 million
Investment total	$7.85 million Phase 1: The federal government (in partnership with the City of Toronto) gave St. Clare's $2.65 million. St. Clare's fundraised another $100,000. A conventional first mortgage was secured for $1.7 million and CAIC was the lender for the final $300,000. Phase 2: The federal government (in partnership with the City of Toronto) gave St. Clare's $1.5 million. St. Clare's provided $1.6 million in equity by extending the amortization of the first mortgage when the building was refinanced.
Capital purpose	The creation of 77 affordable housing units (26 bachelor apartments and 51 one-bedroom transitional units), in two phases, in a renovated medical office building in Toronto,

	ON
Project description	25 Leonard Avenue is a four-story building close to Toronto Western Hospital that was originally built as doctor's offices. St. Clare's converted the offices into small apartment units (Phase 1). Later, St. Clare's added two floors with an additional 26 prefabricated apartments (Phase 2).
Geography	Toronto, ON
Investor focus	Accredited investors and government funds
Term	Phase 1: The first mortgage had a five-year term with 10-year amortization The second mortgage had a 10-year term with a 10-year amortization
Interest rate	See "Cost of financing," below
Investment type	First and second mortgages
Cost of financing	Phase 1: First mortgage: $1.7 million mortgage from First National Financial LLP, on a five-year term at 6.5% and a 10-year amortization. Second Mortgage: $300,000 mortgage from CAIC on a 10-year term at 9% and a 10-year amortization. CAIC charged a 1% application fee estimated at $3,000. Phase 2: Refinanced first mortgage: $2,775,000 at 5.63% amortized over 25 years
Credit enhancements	Phase 1: The Province of Ontario provided rent supplements for the 51 units in Phase 1. The funding was initially only for 5 years, but was subsequently expanded to 15 years. To improve the lender's security, St. Clare's funded a $200,000 capitalized operating reserve from the first mortgage. The 10-year amortization reassured the lender that if the rent supplement program was cancelled, the financing could be reconfigured to permit the project to operate without rent supplements.

Risk profile	The first phase of the project had an above average risk rating due to uncertainty of ongoing rent supplement funding.
Legal supports	Legal support was provided by Cynthia MacDougall from McCarthy Tétrault (lawyers accepted fees on a deferred basis to reduce initial cash requirements).
Timeline	Phase 1: The project took two years to complete (2000—2001). Phase 2: The project took two years to complete (2005—2006).

POLICY OR REGULATORY LEVERS

The major policy or regulatory levers moved or applied that led to success included:

- No CMHC mortgage loan insurance. Using a first and second mortgage eliminated the need for CMHC insurance, which saved money and accelerated the approval process
- Rent supplements were used to amortize loans. The development of 25 Leonard Avenue showed that it was possible to use the money generated by rent supplements over the five-year life of the rent supplement program to pay off a mortgage.
- Conventional financing: Phase 1 required mortgage financing of $2 million. The appraised value of 25 Leonard Avenue, with all the renovations completed, is $3.1 million. The mortgages are less than 65% of value, which meant that the project could get conventional financing.
- Two development phases. The ability to refinance 25 Leonard Avenue allowed St. Clare's to provide more than half the capital required to add 26 new units to the building.

KEY LESSONS

Key lessons learned include:

- Having a previously approved line of credit was a critical factor in St. Clare's ability to purchase the building. Being able to make a $50,000 refundable deposit on 25 Leonard gave St. Clare's credibility with the vendor.
- The units in Phase 2 are not subsidized. Phase 2 of 25 Leonard Avenue showed that it is possible to operate a project if the average rent equaled the shelter component of social assistance
- St. Clare's used private-sector business strategies to achieve social goals. This attitude allowed St. Clare's to take advantage of opportunities and develop 25 Leonard Avenue in a cost-effective and timely fashion.
- The board of St. Clare's was willing to take risks and proceeded with work at times when it was unclear when, or if, the project would receive funding or government approvals.

POTENTIAL FOR SCALE OR REPLICATION

- The first phase of the 25 Leonard Avenue development showed that it is possible to build affordably by aligning the proper resources:

    a. Using a conventional first and second mortgage to provide financing (rather than using CMHC mortgage loan insurance).
    b. Using income from rent supplements to pay off a mortgage with a five-year amortization.

- The second phase of the development of 25 Leonard Avenue showed that affordable housing projects could provide equity for developing new housing by refinancing their existing buildings.

Case Study Three: YWCA Elm Centre, Toronto, ON

SUMMARY

- A result of unique partnerships and innovative financing, the YWCA Elm Centre is a mixed-use residential community located in downtown Toronto, ON.
- The Elm Centre has 300 affordable apartments for low-income single women, women with children, women living with mental health and addiction issues, and families of aboriginal ancestry.
- This new building occupies a city block bounded by Elm, Elizabeth, Edward and Chestnut streets.
- The Elm Centre also houses YWCA Toronto's new administrative headquarters, the 200-seat Nancy's Auditorium, a women's community meeting room, meeting spaces and a restaurant.

BASIC PARAMETERS

Project	YWCA Elm Centre
Partners and corporate structures	YWCA Toronto (non-profit, charitable corporation)
Total project size ($CDN)	$78.9 million
Investment total	■ $24.8 million in mortgage financing from Infrastructure Ontario (IO) ■ $15 million through fundraising ■ $12.6 million in provincial mortgage grant ■ $11.6 million in federal grants and rebates ■ $8.5 million in city loans ■ $3.6 million in municipal rebates ■ $1.5 million through a community housing bond ■ $1.3 million in provincial rebates
Capital purpose	Financing for 300-unit affordable housing project for women in downtown Toronto
Project description	The YWCA Elm Centre is an innovative residential community located in the heart of downtown Toronto. It offers 300 affordable apartments for low-income women and their families, women living with mental health and addiction issues, and families of aboriginal ancestry.
Geography	Toronto, ON
Investor focus	Accredited investors (foundations) and institutional lenders (Infrastructure Ontario)

Financing	Promissory Note: $1 million Term: 10 years Interest Rate: 4% per annum Infrastructure Ontario Loan: $26 million Term: 40 years Interest Rate: 4.9% per annum
Credit enhancements	None
Risk profile	Low
Legal supports	Legal advice provided by Sky Law and YWCA legal counsel
Timeline	December 2010 to May 2012

POLICY OR REGULATORY LEVERS

The major policy or regulatory levers moved or applied that led to success included:

- YWCA worked within existing securities laws and charity regulations to issue an exempt debt security to a foundation.
- The YWCA was able to access funds from the federal, provincial and municipal governments.

KEY LESSONS

Key lessons learned include:

- The role of partnerships is important. A total of $38 million in federal, provincial and municipal grants, combined with a successful fundraising campaign, resulted in the development of the YWCA Elm Centre.
- Small, lower cost debt offerings can be an ideal way to supplement financing.

POTENTIAL FOR SCALE OR REPLICATION

- Given that the YWCA Elm Centre is one of the largest affordable housing projects built in Canada in the last decade, replicating this scale of development may be challenging, especially for organizations that do not possess the capacity for large-scale fundraising and donations.
- The YWCA's process does demonstrate the use of small-scale social financing to fill in gaps in funding. In other projects, similar community housing bonds (promissory notes) could be issued to fill in the shortfalls between traditional financing methods such as mortgages and government grants.
- For organizations that are of a similar size to YWCA Toronto, replication of YWCA Elm Centre may be possible if given access to similar funding and land.

Case Study Four: Centretown Citizens Ottawa Corporation—Beaver Barracks

SUMMARY

- Centretown Citizens Ottawa Corporation (CCOC) is a community-owned, tenant and member-directed, private non-profit housing organization. It has been developing and managing affordable housing in Ottawa, ON, since 1974.
- CCOC is one of the largest private non-profit housing providers in Canada. Its mission is to create, maintain and promote housing for people with low and moderate incomes.
- Now that the Beaver Barracks project is complete, CCOC will own and manage 54 properties with more than 1,595 units, combining both market-rent and subsidized housing across downtown Ottawa.

BASIC PARAMETERS

Project	Centretown Citizens Ottawa Corporation (CCOC)—Beaver Barracks
Partners and corporate structures	■ CCOC ■ Federal government ■ Provincial government ■ City of Ottawa ■ Infrastructure Ontario (IO) ■ Religious order
Total project size	$65 million
Investment total	CCOC received $19 million in combined federal/provincial funding in two phases under the 2008 program year of the Canada-Ontario Affordable Housing Program. CCOC also benefited from $12 million in grants and in-kind contributions from the City of Ottawa. CCOC financed a further $31 million through two debenture agreements with IO. Through a special mortgage arrangement with a religious order, CCOC secured an additional $1.5 million in mortgage financing. The remaining financing was provided through an internal loan mechanism provided by CCOC itself.
Capital purpose	To construct mixed-income and mixed-ability affordable rental housing in downtown Ottawa.
Project description	CCOC is the owner and developer of Beaver Barracks: a

	254-unit affordable housing project located on Metcalfe, Argyle and Catherine streets in downtown Ottawa, ON. The development of Beaver Barracks took place in two phases, comprising five buildings. The project mixes bachelor, one-bedroom, two-bedroom and three-bedroom apartments and townhouses.
Geography	Ottawa, ON
Investor focus	Government funds, accredited investors, and a religious order
Investment type	Debentures, mortgages
Financing	1.Infrastructure Ontario (IO) debentures: Phase 1: Under the Phase 1 Financing Agreement with IO, CCOC issued 30-year debentures, valued at $21 million, to IO. This blends a 40-year financing commitment for $16.3 million with a Province of Ontario–backed 20-year commitment for $4.7 million. Phase 2: Under the Phase 2 Financing Agreement with IO, CCOC will issue 30-year debentures for $19 million, a combination of a 40-year financing commitment for $15 million and a provincially backed 20-year commitment for $4 million. Significant components of Phase 1 and 2 are backed by a Canadian Mortgage and Housing Corporation (CMHC)–insured mortgage. 2. Religious order mortgage: CCOC secured a smaller mortgage of $1.5 million at a below-market rate from religious order support. To provide collateral for this mortgage, CCOC leveraged 163 James Street, a property CCOC has owned independently without government restriction since 1985. 3. Internal Financing: CCOC has developed an internal financing mechanism through which it lends new developments money at the Government of Canada Long Term Bond benchmark rate.

Risk profile	Low
Legal supports	Legal services provided by Soloway Wright. Soloway Wright has been CCOC's legal counsel for more than three decades and has experience dealing in housing financing. Because IO has in-house legal counsel, CCOC didn't have to pay the lender's legal fees.
Timeline	2007—2013

POLICY OR REGULATORY LEVERS

The major policy or regulatory levers moved or applied that led to success included:

- CCOC was able to get a better interest rate on its smaller mortgage by going to a socially motivated private lender, in this case a religious order, instead of a bank.
- The site of former military barracks, the land was purchased by the City of Ottawa from the federal government in the early 1990s and earmarked for social housing. In 2008, CCOC was awarded the land for $1, along with Affordable Housing Program (AHP) funding through a Request for Proposal (RFP).
- Because CCOC had CMHC loan insurance and a portion of the financing was backed by the province, the loan was extremely low risk.
- CCOC has been able to use its unrestricted accumulated operating reserve to contribute its own equity to new developments. To ensure the long-term sustainability of these reserves, CCOC loans the money to the property with interest and principal repayable over a specified period.

KEY LESSONS

Key lessons learned include:

- CCOC was awarded AHP funding in 2008, but construction contracts were not signed until years later and the final phase of project was only completed in the fall of 2012. Preliminary budgeting must account for potentially large increases in construction costs over such a long time span.
- By regulating the maximum chargeable rent, AHP sets an effective cap on borrowing capacity by limiting net operating income.

POTENTIAL FOR SCALE OR REPLICATION

- Given the scale and cost of Beaver Barracks, replicating this development may be difficult, but could be aided by:

    a. Having a municipality willing to either donate land or sell far below market value; and/or

    b. Leveraging equity to secure loans, and using this equity to borrow money at interest rates below market value.

Case Study Five: LOFT Community Services and St. Anne's Place, Toronto, ON

SUMMARY

- LOFT took over St. Anne's Place, an existing seniors' facility and its operations, and renovated it to serve homeless seniors with mental health, addiction and/or physical challenges.
- LOFT assumed an existing Canada Mortgage and Housing Corporation (CMHC) mortgage, fundraised, and received a municipal loan and a Social Housing Renovation and Retrofit (SHRRP) grant. A significant fundraising gap posed a risk to potential completion of the renovations.

BASIC PARAMETERS

Project	LOFT Community Services and St. Anne's Place, Toronto, ON
Partners and corporate structures	LOFT Community Services CMHC City of Toronto
Total project size	In 2000, St. Anne's Place, a stand-alone non-profit 110-unit housing project for seniors, approached LOFT to take over its operation, as it could no longer sustain it. The total cost for purchase and renovation was $2,456,000. Later, it required another $1,728,000 in upgrades.
Investment total	■ $2,000,000: Raised from donations ■ $1,000,000: Loan from the City of Toronto ■ $728,000: City SHRRP grants ■ $456,000: Existing Canada Mortgage and Housing Corporation (CMHC) mortgage assumed
Capital purpose	To purchase and renovate St. Anne's Place, a 110-unit apartment building for seniors.
Project description	St. Anne's Place had been a general seniors' residence. The non-profit organization operating the residence could no longer sustain it and sold it to LOFT for $1. LOFT took the risk to convert it to an apartment building for homeless seniors with mental health, addiction and/or physical challenges. When LOFT took over the building there were many vacancies and LOFT immediately began to accept at-risk seniors with mental health and addiction challenges as tenants. The building is now fully

	occupied; at-risk seniors now make up 85% of the residents. In addition, 82% of the tenants have rent supplement funding.
Geography	Toronto, ON
Investor focus	CHMC mortgage, City of Toronto loan, SHRRP grant
Term	The CMHC mortgage will be completed in 2020. The city loan is repayable beginning in 2018.
Interest Rate	The mortgage is at an interest rate of 5.75% (it was originally a 50-year mortgage). The loan from the City is without annual interest payments until 2018, and then at a rate of prime plus 1%.
Investment type	Various (Mortgage and City Loan)
Cost of financing	N/A
Credit enhancements	None
Risk profile	High: There was a risk involved in raising charitable funding and there was no guaranteed financing for future capital repairs (it is an older building). There was also a low level of support-service funding for the project. LOFT also assumed all of the existing staff from St. Anne's Place.
Legal Support	Through the firm of Adair, Morse.
Timeline	The building was purchased in 2000; renovations were completed in 2001.

POLICY/REGULATORY LEVERS

No major policy or regulatory levers were moved or applied for this project.

KEY LESSONS LEARNED

Key lessons learned include:

- Taking on this project involved assuming significant risk. The risk was mitigated because LOFT had access to charitable funding and a mortgage financing. However, when the project was engaged it still required rent supplement funding (which it achieved) and additional support funding. The fact that the residence was an older building that would inevitably require repairs and upgrades—and, thus, additional funding—further compounded the risk. To date, this has been handled by a loan from the city and capital repair grants.
- The risk was acceptable to LOFT because its board, staff and service users (consumers) strongly believed there was (and continues to be) a critical societal need to serve seniors with significant mental health and/or addictions challenges. LOFT is a large, non-profit charitable organization; it decided to take the risk to contribute its financial, management and donor resources to this project in the absence of sufficient government initiatives and community resources for seniors with mental health and/or addictions and homelessness challenges. It believed that taking this risk was in line with its mission.
- So far the risk has been worth it: a significant number of high-risk seniors with mental health and/or addictions challenges have been able to live successfully in supportive housing in this apartment building, rather than in hospitals, nursing homes or hostels.

POTENTIAL FOR SCALE OR REPLICATION

- This project could be replicated by larger organizations that have suitable infrastructure and staffing resources, have fundraising capacity and are not risk averse. LOFT believes that more of these kinds of supportive housing projects are needed and that showing the viability of this supportive housing service project in the community might encourage government and other community groups to undertake similar projects.

SHORT CASE STUDIES

Wood Buffalo Housing and Development Corporation, Wood Buffalo, AB

Wood Buffalo Housing and Development Corporation (WBHDC) is a not-for-profit developer and landlord established in 2001 by the Regional Municipality of Wood Buffalo, in Alberta, with a mandate to provide housing for low- and moderate-income families. WBHDC operates in a similar manner to any for-profit development and property management company, with all residuals reinvested into affordable housing.

The corporation has two central programs. The first is a home-ownership program for low-income earners. The program encourages applicants to live in the more sparsely populated regions of the municipality by financing affordable mortgages for program participants. The second program offers subsidized non-profit rental units for low-income earners and seniors.

Total project size (value and number of units): N/A

Investment terms: Vary

Other financing*:* WBHDC combines outside sources of capital with its own funds to finance mortgages.

Operating revenue source: N/A

Key innovations and lessons*:* WBHDC was established by the Regional Municipality of Wood Buffalo to build affordable housing. The municipality made land for housing available to the corporation. The province allowed funding programs to be adapted for WBHDC's innovative model. Due to the presence of the oil sands, Fort McMurray has a huge temporary workforce. Given the housing shortage that exists in Fort McMurray, there is an extra impetus on governments to find solutions for the creation of affordable housing.

Ottawa Community Housing: "Blend and Extend," Ottawa, ON

Ottawa Community Housing (OCH) is Ottawa's designated local housing corporation. While the City of Ottawa is the sole shareholder of the corporation, OCH remains an arm's-length entity. Formed in 2002 after the merger of the Ottawa Housing Corporation and CityLiving, OCH is one of the largest non-profit housing providers in Ontario, with a diverse portfolio of more than 14,800 units scattered in communities and clusters across the city.

Total project size (value and number of units): Eight OCH projects due for renewal in 2012 are being refinanced to leverage the equity in the existing assets to fund much-needed capital repairs.

Investment terms: Refinancing rates: OCH has applied to Infrastructure Ontario (IO) for mortgage refinancing. IO offers long-term (with an amortization period of 30 years), stable borrowing rates (currently between 3.75% and 4.2%). These rates are lower than any interest rates being paid and long-term, locked in rates reduce the risk of later fluctuations in interest rates.

Other financing: None

Operating revenue source: N/A

Key innovations and lessons*:* By refinancing, the current mortgage effectively gets paid down at renewal and a new lower-rate mortgage with the same annual debt payments is put in its place, but with a fixed interest rate for up to a 30-year amortization period. Pushing out the amortization period and capitalizing on savings due to lower interest rates helps leverage project equity and translates into immediate working capital. The benefits of this approach are current lower mortgage rates, reduced downstream mortgage risk due to potential interest rate increases at each renewal and realization of capital that can be applied to capital repairs or redevelopment

---

Toronto Community Housing Corporation, Regent Park, Toronto, ON

The Regent Park development initiative is a significant revitalization project in the City of Toronto. The project involves six phases of development, spread over 15 years, for mixed housing, including 2,083 Rent-Geared-to-Income (RGI) units, 700 affordable rental units and 3,500 market rental units. In addition, 250,000 square feet of new commercial space will be added, including a bank branch, grocery stores and national retailers. The development also includes a joint venture partnership with Corix Utilities Inc. for an environmentally sustainable district energy facility.

The Toronto Community Housing Corporation (TCHC) completed two bond transactions totaling in the Canadian capital markets in order to finance the revitalization of Regent Park. The total $450-million bond issue was a part of a broader debt-financing strategy by TCHC that also included traditional approaches (CMHC-insured mortgage, conventional mortgages) and emerging approaches (public bond, private partnerships and leveraging land value). The deal was modeled on similar bond issues by Ontario hospitals and universities, as well as social housing providers in Australia, New Zealand and the United Kingdom.

Total project size (value and number of units): $1 billion; more than 7,000 units (plus community and commercial facilities)

Investment terms: $450 million (two issues of senior, secured debentures: $250 million and $200 million, respectively, with 40-year terms and 5% average interest)

Other financing: $60 million in government grants, $400 million in commercial interests and lending

Key innovations and lessons: The TCHC learned a number of lessons from the bond issue:

- Canadian capital markets are supportive. There was strong interest and a high level of involvement in the deal from many major capital market players. Many of them saw social housing as the "next" infrastructure financing opportunity.
- Getting a high credit rating was critical, as it allowed investors to move into an unfamiliar sector, simplified the marketing task and created a great deal of demand.
- Canadian banks were very supportive, with major financial institutions involved in the deal. Asset security was not important, because a City of Toronto funding agreement eliminated perceived risks.
- The process took time, money and management attention. The deal took three years from start to finish, **requiring** a significant amount of energy **to become** familiar with the intricacies of the process.
- The scale of the investment and the story **behind it** were extremely important. According to TCHC, it was much easier to borrow $250 million than $15 million, and**:** the**ir** borrowing costs dropped to a level nearly the same as the City of Toronto. In addition, revitalization was seen as a major, simple story, attracting major players. The support of stakeholders was critical. The board of directors was kept informed at every step of the way, and, despite **an** arm's-length relationship**,** the City of Toronto ultimately had to sign off on the transaction.

Woodgreen Community Services, First Step to Home, Toronto, ON

On April 1, 2008, WoodGreen Community Services housing purchased The New Edwin Hotel. It re-opened the hotel in March 2010 as First Step to Home, community housing designed specifically to provide accommodation for street-involved and homeless men aged 55 and over.

First Step to Home combines safe, affordable housing with on-site health services and wrap-around support. A first in North America, the program helps 28 seniors to overcome the severe hardship and personal challenges they have experienced surviving homelessness.

Total project size (value and number of units): $3.8 million; 28 units

Investment terms: Unknown

Other financing: Funding from the City of Toronto's housing allocation policy, as well as from other partner agencies, private donors and government ministries

Operating revenue: The program receives Local Health Integration Network (LHIN) funding and has a referral agreement with Streets to Homes. First Step To Home is not subsidized, but follows the 30% income determinant RGI rule or shelter portion of income for costs to residents.

Key innovation and lessons: N/A

Stella's Circle, Multi-Unit Acquisition Strategy, St. John's, NFLD

Stella's Circle is a leading social services agency in St. John's, NFLD, which provides programs for adults and youth who have experienced personal or family breakdown brought about by mental health issues, addictions, abuse, illiteracy and the lack of education, as well as poverty. Stella's Circle acquired seven houses through the Surplus Federal Real Property for Homelessness Initiative (SFRPHI), and then mortgaged these properties in order to purchase other run-down properties. Stella's Circle used its carpentry training program to complete renovations on these units.

Stella's Circle was the first Canadian organization to utilize the SFRPHI to provide non-profit affordable housing, and the first to use the equity from its seven SFRPHI properties—in partnership with Residential Rehabilitation Assistance Program (RRAP) and a private financial institution (Scotiabank)—to acquire additional properties from the private market. Its actions significantly increased the supply of affordable social housing in St. John's. Between 2002 and 2005, Stella's Circle's creative financing approach helped secure numerous properties for long-term affordable housing in the context of one of Canada's hottest real estate markets.

Total project size (value and number of units): Approximately $1.6 million; 29 units. Four properties and 20 units were acquired with SFRPHI equity and private financing. The new properties had a purchase cost of $492,000 and an appraised cost of $608,000 after renovation.

Investment terms: By 2005, the cumulative appraised value of the seven SFRPHI properties was $1,025,000, an increase of $303,000. Because these properties were mortgage-free, Stella's Circle was able to use this equity to negotiate pre-approval of $1.5 million in financing from Scotiabank to purchase up to 10 new properties, in return for taking a $150,000 line of credit.

Other financing:

- The SFRPHI provided seven properties to Stella's Circle (mortgage free) with a cumulative appraised value of $722,000 (at the time of acquisition).
- The federal/provincial RRAP granted Stella's CIrcle $152,000 to renovate four of the seven SFRPHI houses and increase the number of units from seven to nine. Natural Resources Canada's EnerGuide for Houses program was incorporated into the renovation process for one of the properties, resulting in projected annual utility bill savings of $6,400.
- The City of St. John's waived property taxes and development fees.
- Stella's Circle deployed its home repair and maintenance training program (New Beginnings, funded by the provincial Human Resources, Labour and Employment Department) to help complete renovations in three of the new properties.

Operating revenue source: Total annual rents (including utilities) collected from the four new properties that were acquired using private financing cover 100% of annual operating costs ($33,348).

Key innovation and lessons: The SFRPHI projects represent the cornerstone in the expansion of the corporation's affordable housing portfolio, providing a solid foundation upon which Stella's Circle can continue to acquire properties and develop more affordable housing over the coming years.

The key lesson was the demonstrated ability for an affordable housing provider to leverage the equity provided through existing stock to acquire private financing for the acquisition of new properties. Prior to this arrangement with Scotiabank, Stella's Circle's efforts to find a financial institution willing to partner in converting their equity into an affordable housing financing formula had met with resistance.

Frontenac Community Mental Health and Addiction Services (FCMHAS), Kingston, ON

A. Montreal Street, Kingston, ON

This house had been rented by the organization for several years and the landlords took advantage of the care of the building, resulting in an increase in value of the property. New landlords increased the rent. To avoid this spiraling of costs, the agency decided to advance its own property acquisitions; when the came on the market, made an offer to the landlord. This two-unit duplex has four bedrooms available in each side of the house. There is also a common room, living room, bathroom and kitchen in each unit. It is located near downtown Kingston, which provides residents easy access to all the amenities they require. To avoid extra fees, 10% of the purchase price was the down payment; the remainder of the cost was mortgaged.

Total Project Size (value and number of units): $39,000 (in 1984); two-unit duplex

Investment terms: N/A

Other financing: Municipal subsidy for property tax relief

Operating revenue: The property was and continues to be carried by the rents, which are equivalent to the shelter allowance of Ontario Works (OW) or ODSP (disability income).

Key innovation and lessons: Equity from this property was leveraged to acquire an administrative building. This is an example of how to take limited funds and start by putting a down payment on a small project to start building equity. By securing a sufficient down payment, FCMHAS ensured that the rents were sufficient to cover the operating costs, including the mortgage payments. Eight years after this house was first purchased, the equity in the home was used to secure other capital assets. The advantage in this endeavour was that there was no need for government funding, which meant the limitations and requirements that accompany such financing did not encumber the future use of the equity in the building.

B. York Street, Kingston, ON

This project was initiated in 1995, when volunteers of the Kingston Psychiatric Hospital teamed up with FCMHAS to purchase a home. The volunteer association members pledged to raise $30,000 and donated that amount to the agency within the year. A mortgage of $80,000 was secured, with rents dedicated to property costs. The municipal government also provided a subsidy similar to the one received for the Montreal Street home.

Total project size (value and number of units): $110,000 (in 1996); single family, four-bedroom home

Investment terms: Mortgage of $80,000

Other financing: Fundraising provided $30,000; municipal subsidy for property tax relief

Operating revenue: The property was and continues to be carried by the rents, which are equivalent to the shelter allowance of Ontario Works (OW) or ODSP (disability income)

Key innovation and lessons: Housing can be obtained by creating partnerships with those who hold similar values and goals. In this case, the volunteer group associated with the psychiatric hospital wished to lead a special project and chose to partner with FCMHAS to create housing for people leaving the specialized care of the hospital. The chairperson of the volunteer group passed away just prior to securing the house and the home has been dedicated to her, acknowledging her passion to the cause of housing. The dedication of volunteers is key in the field of housing.

ASSESSMENT: ASSESSING READINESS, FINANCIAL CAPACITY, & RISK

Know your Strengths and Weaknesses: Assessing Readiness and Financial Capacity of your Organization

This tool was developed by the Nonprofit Finance Fund and can be found in their Nonprofit Finance 101 resource, more information can be found here:

http://nonprofitfinancefund.org/files/docs/2010/Self-Assessment_Landscape.pdf

Organizations that can clearly and accurately articulate their financial story and resource needs are better positioned to make a strong case for support. In both good times and bad, your stakeholders will be more engaged if you can provide a data-driven assessment that links your nonprofit's financial health to its impact and accomplishments. This can inform strategic planning and guide leadership in making mission- driven, financially sound decisions.

Use the associated worksheet to capture a snapshot of your nonprofit's strengths and weaknesses. The worksheet is divided into six core areas of nonprofit finance, described in detail below. Together, these areas help you balance the three critical components essential to an organization's long-term viability: Mission, Capacity, and Capital. This tool was taken from the Nonprofit Finance Fund, to learn more, visit nonprofitfinancefund.org.

Core Areas of Nonprofit Finance

Revenue

The degree of predictability and reliability of revenue is often an indicator of financial health. Revenue includes: payments for services; donations from individuals, foundations and corporations; contributions and contract payments from government agencies; and income from investments and other activities (for example, rental supplements).

Expenses

Nonprofits that run into financial challenges are often uncomfortable bringing expenses in line with their revenue reality. There are also costs beyond day-to-day operations, including debt principal payments, capital expenditures, and funds set aside each year for future use. Budgeting to the full cost of doing business is essential for sustained financial health.

Profitability and Savings

Nonprofits need profits. Surpluses are necessary to pay off debt, invest in facilities and equipment, and fund savings and growth. Nonprofits should budget for and manage to annual surpluses that meet their short- and long- term needs. Breaking even is rarely enough.

Health of the Balance Sheet

The balance sheet reveals a nonprofit's ability to manage risk and pursue growth or other opportunities. It indicates financial condition at a specific point in time. Included on the balance sheet are assets, liabilities and net assets. In the nonprofit sector there are restrictions on assets and net assets which can impact an organization's flexibility.

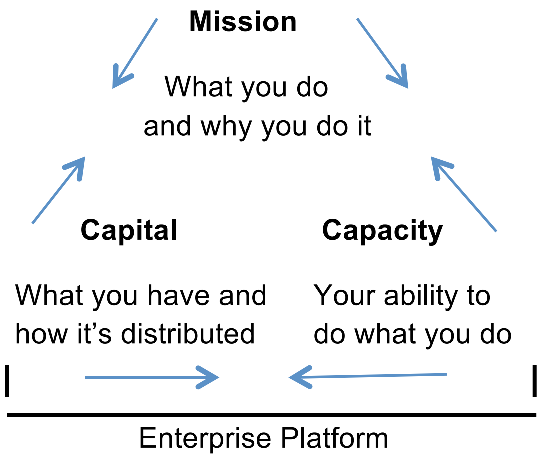
Liquidity

Liquidity is a measure of how much cash (and assets readily convertible to cash) is available to an organization. Marketable securities, undrawn lines of credit and receivables are liquid if they can be turned into cash within one year. Determining liquidity is often complex for nonprofits. Cash and investments may be restricted by donors, creating the false impression that a nonprofit is flush with flexible funds when it may instead be dealing with liquidity constraints.

Financial Planning

Organizations that actively and continuously plan for the unexpected are better positioned to weather difficult times and pursue new opportunities. Planning requires access to financial information that is timely, accurate, and reliable. It is the collective responsibility of staff, management and the board. Financial plans are only as good as their underlying assumptions and are not a substitute for making and communicating difficult decisions.

Enterprise Platform (made up of three key aspects of work):



See worksheet attached to perform assessment: App 1: Know Your Strengths and Weaknesses

Infrastructure Planning and Key Questions

This tool was developed by the Nonprofit Finance Fund and can be found in their Nonprofit Finance 101 resource, more information can be found here: http://nonprofitfinancefund.org/nonprofit-finance-101

When purchasing or retrofitting a building asset, there are a special set of challenges to consider with regards to your financial infrastructure, which may already be hard-pressed to meet the demands of day-to-day responsibilities. As you prepare and manage the project, your decision must be able to withstand scrutiny in several areas. This planning guide provides several factors to consider as you move ahead.

It is important to understand all aspects of your project and have a realistic picture of how much money, time and energy this project will really cost your organization. The next question is whether such a project is the right step for your organization.

This stage of planning is all about anticipating the full impact of the project on your organization's ability to function and serve its mission – both during and after the project. As with cost, some aspects of the impact will be easy to identify and measure, some will be less so, and some may be so far down the road they seem unrelated.

What should you take into account? This will depend on the nature and scale of the project, but you should be able to provide positive and verifiable information relating to some or all of the following areas.

- **Mission:** does the proposed project support and further your organization's mission or will it require you to take on tangential or unrelated activities, perhaps to enable you to afford the project?
- **Board and Staff consensus and support:** does everyone understand and agree with the need for this step? If there is dissension, what are the possible ramifications?
- **Leadership:** in the case of a large project, is there a strong and effective leader who can articulate and rally the necessary support?
- **Financial health:** what sort of financial condition is your organization in? Does executive and board leadership really understand the financial position? Are they familiar with the audit? Can they interpret the balance sheet?
- **Business plan:** does this project evolve as a natural part of your business plan (i.e. your strategic plan with numbers attached) or will it cause you to modify existing plans?
- **Need:** if the purpose of the project is to support expanded programs, has the need for the expansion been objectively evaluated through market or audience studies? Is existing demand driving the project or is the project seen as a way to generate more demand? If so, what is the evidence for this?
- **Fundraising:** can you raise the necessary funds for this project and what are your assumptions based on? Does your target amount include funds to offset current operating shortfalls caused by the project and short-term increased operating needs caused by expanded programs, staff and overhead costs?

- **Project management:** who's going to manage the project? Anything beyond the simplest project usually requires a project manager, someone other than the architect or contractor, to represent your interests during construction. Are you being realistic in assigning staff to project-related tasks in addition to their regular work? What are the likely programmatic and financial ramifications of your attention being deflected from the primary business of the organization?
- **Time:** have you allowed enough time or are you trying to meet a deadline? If so, what will happen if you miss it? What are your contingency plans?
- **Budget and cash flow**: does your budget cover all possible direct and indirect costs? Have you included a contingency line to cover unanticipated costs? If you are planning a capital campaign, have you factored in the lag time between pledges and payment? Have you projected your cash flow needs, remembering that you'll have to pay for work as it is completed? Will you need to borrow money and if so, do you know how to do that?
- **The future:** do you know what your organization will look like after the project, say three years from now? If your project reflects or will lead to organizational growth, have you projected your new infrastructure needs? If your operating budget will grow, have you identified additional sources of unrestricted income?

Pitfalls and Failures to Avoid During a Facilities Project

This resource was developed by the Nonprofit Finance Fund, more information can be found here: http://nonprofitfinancefund.org/research-resources/pitfalls-and-dangers-avoid

If you've cleared your first hurdles and are now ready to face the challenges of construction, there are a variety of ways in which the wrong decision can have lasting consequences. The project itself will provide plenty of opportunities for missteps, many of which can be costly…and most of which can be avoided.

In "Deciding on a Facility Project" and "Before You Begin: What is A Facility Project?" we talked about what to take into account when deciding whether to go ahead with a facility project. This entails recognizing that a major project represents risk to your organization, and that due diligence should be exercised so the full scale and nature of the risk is understood before you make the decision to proceed.

Having done that, you've cleared your first hurdle and are now ready to face the challenges of construction. Though not as potentially dangerous to your organization as making the wrong decision initially, the project itself will provide plenty of opportunities for missteps, many of which can be costly…most of which can be avoided.

The first and most effective step you can take to minimize unpleasant surprises is to hire a project manager, who serves as the owner's representative in both planning and dealing with the critical day-to-day aspects of a capital project. This is not a role that should be given to your architect or general contractor. In fact, one of the most valuable functions of a project manager is to help you identify and negotiate with the architect and general contractor. The project manager's responsibilities include the following:

Planning

- Assist in hiring architect
- Support marketing effort as required
- Work with the architect to:
    - develop space utilization program and project scope
    - identify site and work scope alternatives
    - define timeline and overall project budget

Design

- Coordinate in-house design reviews at various stages
- Work with architect, estimator and committee to develop budget

Construction

- Assist in hiring contractor including:
    - negotiate fee
    - formulate construction contract
    - make adjustments to the scope of work
- Coordinate regular job meetings
    - interface with architect and construction team
- Work with architect, builder, and project committee to develop schedule
- Coordinate in-house design/sample approvals
- Track/reconcile project budget regularly
- Review and approve contractor requisitions with owner
- Review, negotiate and approve change orders with owner
- Track schedule – follow progress
- Coordinate project with move-in effort
- Verify that permits/approvals are in place

How big does your project need to be to justify hiring a project manager? How much does one cost? Anything beyond the simplest work, a paint job or installing carpeting for example, should involve a project manager. Certainly any work that requires a general contractor and the coordination of different subcontractors should not be managed by a staff person. Depending on the size of the project, your contractor will charge by the hour or, more likely, a flat fee of between five and ten percent of the total project cost, with the percentage decreasing as the project gets larger.

It's advisable to hire your project manager early in the planning process. There is a lot more to it than merely coordinating the work. A good project manager will be familiar with zoning regulations, permits and other compliance requirements that might apply to your project. Hiring someone who knows the system and how to speed the process will save you many headaches – not to mention time and money.

It's best to get your project manager involved as early as possible in the planning process. His or her experience (in an environment that may be unfamiliar to you) will help ensure you don't overlook small but important factors. The project manager can also be very helpful in putting together a comprehensive, realistic budget and invaluable in guiding you through the bidding process.

While your project manager can minimize problems related to the actual project, there are other potential sources of trouble that you can prepare for. Simply speaking, you need to be realistic in budgeting time, money and staff resources. Projects almost always take longer than you expect, even with a top-notch project manager. You should avoid creating deadlines in order to meet program commitments. If the opening of your season depends on the project being completed, be extremely generous in the time you allow for the project.

Costs frequently turn out higher than expected, although this can be minimized through realistic budgeting and the help of your project manager. A related issue: the availability of cash when you need it. Anticipate your cash flow needs and borrow if necessary, so you don't incur additional expense through unplanned work delays. Monthly cash flow projections throughout the life of the project are an invaluable planning tool.

Any sizeable project is going to distract your organization from its day-to-day work, especially the staff point person. Be careful not give staff members responsibilities they aren't qualified to handle. Recognize the need for outside professionals, and resist the temptation to save money by relying on in-house solutions. It's a good idea to take a sober look at the potential impact of the project on your ongoing programs and services – especially if this could result in reduced income. If your staff will be required to deliver programs and services with construction going on around them, there will be a price in both productivity and morale. Planning for and managing the disruption will require the extended attention of a methodical, detail-oriented coordinator.

The most important thing to remember when planning a facility project is that you'll be dealing with an environment that has its own language and procedures. Your project can be managed smoothly and affordably, but only if you don't underestimate the complexity of the undertaking or the level of professionalism required to bring it to a successful conclusion.

Managing Risk

Managing risk and identifying approaches to mitigate it is always essential to a development project. Those projects that integrate social finance or other innovative ideas to get them off the ground, may appear to be riskier. It is important to plan for risk, understand and communicate the probability and potential solution, and address these concerns up front. It also takes a certain approach and tolerance of risk to get innovative and impactful projects off the ground. So plan well but also take some risk and be an innovator!

By utilizing the Strengths and Weaknesses Tool and addressing the Key Questions outlined above, you are well on your way to understanding and planning for the risks involved in infrastructure development. Below are a few other basic tools to get you started.

Basic Risk Analysis Tool

This matrix can help you establish early on and at a high-level where your project poses significant risk. Rank the Probability and Consequence on a scale: High-Medium-Low.

Risk	Probability	Consequence	Action to Lower Risk
E.g. TBD			

Managing Risk and Asking the Right Questions

The Ontario Non-Profit Housing Association (ONPHA) has a great tool to help you build your development plan. See Section Four: Supplementary Resources.

SOURCES OF CAPITAL

Jubilee Fund

Website: www.jubileefund.ca

Description: The Jubilee Fund is an ethical investment fund established in Manitoba to raise awareness concerning the interrelated issues of poverty reduction, financial assets and access to credit. The Fund provides flexible financing in the form of loan guarantees and/or bridge financing for worthy projects that do not qualify for traditional financing. Loans are made to not-for-profit organizations and businesses, (cooperatives and social enterprises) to initiate or complete community-based projects that reduce poverty and financial exclusion. In its low-income housing portfolio, the Fund works with local organizations and housing co-ops to provide loans and/or bridge financing for renovations, in-fill housing or new housing units in low-income neighbourhoods. Housing must be targeted to low-income families and individuals, students, housing co-ops and special needs groups.

Jubilee Fund is a registered charity, funded by donations and grants as well as interest earned from investment certificates, which are purchased by individuals/groups/organizations and pooled together in a fund that is used to secure and leverage loans made by the organization.

Loan applications are assessed on social goals *and* financial viability. Each applicant must demonstrate the skills needed to carry out the day-to-day operation and management of the project they are proposing. The Fund invests in people with initiatives containing the following attributes: human dignity; sound business plan; environmental integrity; local employment and training; local and democratic ownership; use of locally produced goods and services. Loan recipients receive support in the form of business tips, advice and mentoring.

Canadian Alternative Investment Cooperative (CAIC)

Website: www.caic.ca

Description: CAIC invests in groups working for positive social change and community economic development in Canada that lack access to traditional financing. The organization is particularly interested in projects that promote alternative economic structures and acts as a catalyst to structural change. When making an investment, CAIC takes into consideration both the social benefit of a project and its business soundness. Loan recipients typically fall into the following three areas: social enterprise financing, mortgages for community-based projects, social & affordable housing initiatives. CAIC defines socially beneficial housing as: any low cost rental housing; housing that will remain perpetually affordable; housing that is appropriate to those being housed; resident and community controlled housing. CAIC will only consider applications where other sources of financing are not available, or where present terms are extremely onerous. Applicants are assessed based on expertise, financial planning, organizational resources, and financial soundness.

Loan parameters: Interest rates are set on a case-by-case basis and take into consideration: the prime lending rate (at conventional financial institutions), the perceived level of risk, similar loans in CAIC's portfolio and the rate requested by borrower. Generally, interest rates are lower than market rates. CAIC works with borrowers to ensure that debt works for them, offering flexible terms and amortization periods. All loans are open for prepayment/repayment without penalty.

CAIC engages in two major deal types focused on debt financing through mortgages and loans, ranging in financial size and return. The characteristics for these deals are as follows:

- Mortgage financing ranging between $100,000 to $500,000 with financial returns of approximately five (5) per cent; and
- Social enterprise loan financing ranging between $10,000 to $50,000 with financial returns of between eight (8) per cent to nine (9) per cent.

Le Chantier de l'économie sociale

Website: http://www.chantier.qc.ca/

Description: Le Chantier de l'économie sociale is a non-profit autonomous corporation founded in 1999 to promote social economy initiatives in Quebec.[16] Its mandate is focused in supporting the development and the strengthening of ventures, representing and building consensus or agreements between social economy actors. Le Chantier acts as a network of networks facilitating the consultation in the sector. It is intended to represent the diversity of sectors where social economy is present and regroups main social movements, local development actors and social economy enterprises promoters.[17] Chantier's main priority is the creation and stability of sustainable jobs. To support and invest on social enterprises it has created two investments funds: RISQ (Quebec Social Investment Network) and Chantier de l'économie sociale Trust (FCES - Fiducie du Chantier de l'économie sociale).

Loans from Le Chantier Trust (la Fiducie) range from $50,000 until $1.5 million. For the capitalization deals, loans cannot represent more than 35% of the project costs.

- Patient Capital Loans: (with a 15 year rate repayment moratorium). Unsecured operational (working capital or project financing) patient capital
- Real Estate Patient Capital: by a real estate mortgage subordinate to real estate mortgages that may be held with other lenders.

Infrastructure Ontario (IO)

Website: www.infrastructureontario.ca/

Description: Infrastructure Ontario's Loan Program provides long-term financing to eligible public sector clients to help renew infrastructure and deliver value to customers and residents. IO partners with housing providers across Ontario to help provide access to affordable financing for capital investments. Eligible recipients include incorporated local housing corporations, non-profit housing providers and co-operative housing providers that provide housing under a federally, provincially or municipally funded housing program in Ontario.

---

[16] http://www.chantier.qc.ca/?module=document&uid=867
[17] Translated from Info-Guide: Économie sociale, financement et ressources techniques in www.**ressources**entreprises.org

IO issues loans for any capital costs, including construction or renovation of facilities, energy efficiency projects (windows, doors, lighting, appliances etc.), water, hydro, HVAC and communications systems, and accessibility improvements.

Loan Parameters: Infrastructure Ontario's loan pricing recognizes the unique fundamental credit character of each eligible client sector and continues to provide equitable access to affordable financing rates. Pricing is based on the relative long term credit strengths of each eligible client sector, recognizing the varying degrees of government involvement and the security afforded to Infrastructure Ontario. Current indicative rates range from 1.79 – 3.84, depending on the length of term. IO issues debentures at fixed rates for terms of 5 to 25 years, as well as construction loans at floating rates. The term of the loan (repayment period) cannot exceed the life of the asset or capital project, and should not exceed the term of the Federal Operating Agreement, or the term stipulated in the Social Housing Reform Act, 2000.

Vancity

Website:
https://www.vancity.com/MyCommunity/OurChangeProductsAndServices/AffordableHousing/

Description: Vancity Credit Union provides a range of financing options for organizations in the affordable housing sector as part of their community loan portfolio, which consists of high impact lending programs to help organizations achieve positive social, environmental and economic impact in underserved areas. In particular, they provide loans for financing initiatives that will create new affordable housing in the community, through construction, refurbishment, or repurposing. For-profit and non-profit financing includes innovative lending solutions for building purchase, refinancing, and leasehold improvements; tax efficient structures for charitable gifts of land, buildings or investments, including endowments; pooled savings accounts to maximize interest income and investment solutions for long-term growth; advice on greening your operations and facilities plus flexible lending to match energy savings payments; day-to-day account management to meet your needs and increase operational efficiencies.

Vancity does not provide capital grants for affordable housing projects. However, to assist with funding in the crucial stage between starting an affordable housing project and obtaining construction financing, Vancity does provide small grants (typically $15,000 or less) for visioning, facilitation or feasibility studies related to your affordable housing project.

Canadian Mortgage and Housing Corporation (CMHC)

Website: http://www.cmhc.ca/en/inpr/afhoce/fias/index.cfm

Description: To support the creation of affordable multi-unit housing, CMHC offers financing flexibilities to eligible providers, including mortgage financing up to 95% of the lending value of the property, competitive interest rates for the life of the mortgage, and reduced renewal risk. The higher the level of affordability of the housing project, the greater the flexibilities offered.

The CMHC Affordable Housing Centre also offers Proposal Development Funding (PDF): repayable interest-free loans, and seed funding: financial assistance to carry out the initial activities required to develop a proposal for an affordable housing project that will result in increasing the stock of affordable housing in Canada. PDF loans help with the up-front expenses incurred during the process of developing an affordable housing project proposal and enable housing proponents to carry out the activities required to bring their proposal to the point where they can apply for mortgage financing. CMHC offers loans of up to $100,000 to develop an affordable housing project proposal. The maximum amount of Seed Funding is $20,000 per housing project, up to $10,000 as a grant, and up to $10,000 in the form of interest free loan, which is repayable if the project succeeds.

CMHC financing is available to private entrepreneurs/builders/developers, private non-profit housing organizations, non-profit co-operatives, a group of individuals who may or may not intend to become incorporated, faith-based organizations, municipalities, and First Nations communities.

Other Sources

Beyond these sources, there are other sources of financing including:

- **Private and community foundations:** There are a number of family and community foundations across Canada that provide loans for large scale facilities projects, using their endowment assets as a viable pool of lending capital.
- **Community Forward Fund:** Community Forward Fund (CFF) makes loans or arranges financing for Canadian nonprofits and charities. Its structure has been designed to address a gap in access to patient, working capital and bridge loans for the sector for small and medium sized organizations.
- **SVX:** An online investment platform connecting impact ventures, funds, investors, and professionals. The platform provides a single access point for nonprofit housing providers to privately profile investment opportunities in local housing projects to a network of qualified, accredited investors.
- **Credit Unions:** A number of credit unions and financial institutions across Canada offer mortgage financing for affordable housing projects.

FINANCIAL TOOLS

Housing providers require diversified, or mixed, sources for capital funding, including grant and debt financing. It is not possible to finance a new housing project with one government funding source, nor is it possible to finance a project solely using private capital. Housing providers are employing sophisticated strategies to obtain government, philanthropic and investment funds from a variety of sources to support development. Below are a few such tools, however, this is not an exhaustive list.

Mortgage

A debt instrument that is secured by the collateral of specified real estate property and that the borrower is obliged to pay back with a predetermined set of payments. Mortgages are used by individuals and businesses to make large purchases of real estate without paying the entire value of the purchase up front.

Mortgages are also known as "liens against property" or "claims on property."

Read more:

http://www.investopedia.com/terms/m/mortgage.asp#ixzz25h7ywMi7

Second Mortgage – A type of subordinate mortgage made while an original mortgage is still in effect. In the event of default, the original mortgage would receive all proceeds from the liquidation of the property until it is all paid off. Since the second mortgage would receive repayments only when the first mortgage has been paid off, the interest rate charged for the second mortgage tends to be higher and the amount borrowed will be lower than for the first mortgage.

Alternative or small lenders are likely more interested in supporting second mortgages.

Read more:

http://www.investopedia.com/terms/s/secondmortgage.asp#ixzz25hAOiqYd

Bonds

Bonds are a debt investment in which an investor loans money to an entity (corporate or governmental) that borrows the funds for a defined period of time at a fixed interest rate. Bonds are used by companies, municipalities, states and U.S. and foreign governments to finance a variety of projects and activities.

Bonds are commonly referred to as fixed-income securities and are one of the three main asset classes, along with stocks and cash equivalents.

Read more:

http://www.investopedia.com/terms/b/bond.asp#ixzz25WXO3yDU

Community Bond – An interest bearing loan that is accessible to unaccredited investors and can only be issued by a non-profit organization

Read more:

http://communitybonds.ca/

Housing Bond - A short-term or long-term bond issued by state or local governments to help finance the construction or rehabilitation of affordable rental housing.

Read more:

http://www.investopedia.com/terms/h/housing-authority-bonds.asp#ixzz25WWw4Y1q

Promissory Note – A written, dated and signed two-party instrument containing an unconditional promise by the maker to pay a definite sum of money to a payee on demand or at a specified future date.

Read more:

http://www.investopedia.com/terms/p/promissorynote.asp#ixzz25h4IxyMA

Loan Guarantee

A loan guarantee provides a non-cancellable indemnity bond that is backed by an insurer in order to guarantee investors that principal and interest payments will be made. Many insurance companies specialize in financial guarantees and similar products that are used by debt issuers as a way of attracting investors. The guarantee provides investors with an additional level of comfort that the investment will be repaid in the event that the securities issuer would not be able to fulfill the contractual obligation to make timely payments. It also lowers the cost of financing for issuers because the guarantee typically earns the security a higher credit rating and therefore lower interest rates.

Read more:

http://www.investopedia.com/terms/f/financial-guarantee.asp#ixzz25WfMwW00

Land Trust

A legal agreement where a trustee is appointed to maintain ownership of a piece of real property for the benefit of another party: namely, the beneficiary of the trust. Land trusts are used by several different types of organizations for several reasons; nonprofit entities use them to hold conservation easements, and corporations and investment groups use them to accumulate large portions of land.

Read more:

http://www.investopedia.com/terms/l/land-trust.asp#ixzz25h8LTlTB

ADDITIONAL INNOVATIVE FINANCING STRATEGIES

Community Partnerships: Saskatoon Housing Initiatives Partnership

SHIP was created in 1999 to assist with delivering affordable units in Saskatoon by working with the private sector, builders and developers, along with affordable housing groups . At that time, the strategic map focused on an investment capital fund, endowment capitalization, charitable donations, development assistance, delivering program funding, loan packaging, and loan securitization. The talk was of families, modest-income, and large-scale construction.

As time moved on, SHIP's role became one of facilitator – helping identify opportunities in the hopes the players would see the potential for collaboration in making projects stronger and with better outcomes in terms of design, affordability, and distribution across the city.

However, what became evident was that there was in fact very little capacity in the community for true partnering and collaboration. There was development capacity in one sector, market intelligence in another, but not a one-stop-shop for affordable housing project development in Saskatoon.

Thus emerged SHIP's role as provider of technical assistance, capacity building, and community advocacy for affordable housing in Saskatoon. The Development Services team and SHIP's Board of Directors continue to provide guidance and direction on a variety of affordable housing projects that come forward.

Mandate

SHIP is structured as a non-profit partnership that brings organizations together to form collaborations to do what no one organization can accomplish alone.

As the City of Saskatoon faces continued pressure to help supply appropriate and affordable housing units for low income families, first time buyers and seniors on fixed incomes. Saskatoon's continued growth has created an urgent need to respond to changing demographics and increased housing prices with initiatives that will help create more appropriate and affordable housing. Permanent, affordable, appropriate, safe and secure housing is the necessary foundation for building healthy, well educated, creative and economically viable neighbourhoods.

In order to achieve this goal, developers and home builders may need to be accommodated for providing affordable housing units. Reassessing and re-evaluating policies regarding the development charges and increase levies, fees and transaction costs may also help to significantly reduce the costs incurred by home buyers and renters.

Consultations with City administration, home builders, non-profit housing providers and the Saskatoon Housing Initiatives Partnership (SHIP) indicate that incentives and policy changes are not the only answer. Traditional non-profit housing providers, faith based organizations and other housing providers require assistance to develop business plans for affordable housing. Skilled human resources available to assist housing providers in developing plans, procuring sites, applying for government programs and incentives are also crucial.

Using the network that SHIP has developed to address housing issues in the City, SHIP is able to call upon its network and contacts within the residential construction industry, financial institutions, engineering consultants and firms, and non-profit organizations (among others) to work on proposed projects.

The Development Services team and the Board Directors of SHIP are able to provide guidance and direction on various projects that come forward. Few organizations exist that bring a wealth of knowledge and experience, coupled with relationships with government, business and community like SHIP.

SHIP has been involved with affordable housing issues and projects since 1999 and has worked with the private sector, builders and developers, along with affordable housing groups to assist with delivering affordable units in Saskatoon. Using the network that SHIP has developed to address housing issues in the City, SHIP is able to call upon its network and contacts within the residential construction industry, financial institutions, engineering consultants and firms, and non-profit organizations (among others) to work on proposed projects. The Development Services team and the Board Directors of SHIP are able to provide guidance and direction on various projects that come forward. Few organizations exist that bring a wealth of knowledge and experience, coupled with relationships with government, business and community like SHIP.

Affordable Housing Incentives in Saskatoon

Current incentives include: Capital Funding up to ten percent of the project, the New Rental Construction Land-Cost Rebate Program of up to $5,000 per rental unit, the Home First Ownership Program, Permit Rebates for Secondary Suites, Property Tax Abatements for affordable housing projects, the Direct Sale of City-Owned Land for Affordable Housing Projects, and a Priority Review of Approved Affordable Housing Projects. The City of Saskatoon has also proposed further incentives for affordable housing providers. The proposed incentives consist of: a Permanent Affordable Housing Program (Land Trust), and a New Zoning District for Entry-level and Affordable Housing.

Community Bonds: Centre for Social Innovation (CSI), Toronto[18]

The Centre for Social Innovation is a social enterprise based in Toronto with a mission to catalyze social innovation in Toronto and around the world. They provide co-working facilities for social entrepreneurs and nonprofit organizations as well as a diverse array of programming to support these vibrant communities. At present, they operate or plan to operate three facilities in Toronto (CSI Spadina, CSI Annex, and CSI Regent Park) and are planning on opening a facility in New York.

The Model

The CSI Annex property, at the time of purchase, was valued at approximately $4.2 million. With renovations and leaseholds, the projected value of the building was expected to be approximately $6.5 million. Generally, such a deal would be beyond the financial capacity of a small, fairly new, community-based nonprofit. While this was also true for CSI, the deal was certainly not beyond the perseverance and ingenuity of Tonya and the CSI Team. Guided by a do-it-yourself philosophy, and undeterred by the anticipated challenges, the team consulted with the City of Toronto, encouraging the City to utilize its guarantee provisions to provide a loan guarantee to CSI for the purchase of the building. The tremendous impact of CSI on Toronto's economic development and culture was not unknown to the City, and the City obliged.

Armed with this guarantee, CSI was able to secure a competitive 5-year, $4.5 million mortgage from Alterna Credit Union at 4.50%. The mortgage itself is structured as a development loan, carrying interest only during the first year while the organization undertakes renovations. Once tenants start filling-up the space (there are currently leases for 100 members but there is still room for you), the loan will convert to a long-term mortgage with a blended payment, reducing the loan balance that is amortized over 25 years.

This was a huge step forward towards acquiring the building. But the mortgage provision covered 75% of the building's full projected costs. There was still approximately $2 million to be raised in order to complete the acquisition of the property and conduct renovations. Enter community bonds.

Like most debt securities, a community bond is a debt instrument in which the issuer of the bond (the borrower) promises to pay the holder of the bond (the lender) the principal amount borrowed, along with any interest payments accrued during the holding period of the bond. For risk-averse investors, it is as conservative and reliable a debt security as most high-quality debt investments. Unlike most debt securities, however, a community bond is issued by the community (nonprofit and community organizations), and for the benefit of the community. When backed by a physical asset, the bond can also be held in one's RRSP and TFSA accounts. In addition, community bonds allow for lower investment minimums, making investing in the bonds more affordable for a larger number of people.

For CSI, the community bond is first an expression of their core value of positive change and innovation through collaboration, and only then a financial instrument. "Community bonds are about democratizing social finance. These instruments are how capitalism is supposed to work. For the

[18] Content derived directly from: Malhotra, Annie. Good Ventures, Good Deals: The Centre for Social Innovation's Community Bond. Social-Finance.ca February 11, 2012.

community, by the community," says Tonya Surman, Executive Director of CSI. With no financial assets to back the purchase of the new building, CSI sought to leverage the only (and without doubt its most important) asset, and that is its relationship with its community.

The CSI Community Bond

The bond offer consists of three series, backed by a mortgage charge on the property:

- Series A offers a floating rate of return at Bank Prime (currently at 2.25%) + 1.75%. Principal payments for Series A are intended to commence within the first four years of the project, with a maturity date and final payment due 10 years from inception;
- Series B also offers a floating rate of return, but at Bank Prime + 2.50% (75 basis points higher than Series A). Principal payments on Series B will be deferred until after the maturity date of Series A, following which principal repayment will commence with a final maturity date of 15 years from inception; and
- Series C offers a fixed rate of return at 4.00% and has a maturity date of 5 years from inception. Series C accrues over the life of the investment.

All three series are subordinate to the conventional mortgage financing claim (applicable to Alterna Credit Union), but rank equal to one another. An important difference amongst the three series, aside from the rate of return and maturity, is the minimum amount required for investing into each of the series. Series A required a minimum investment of $50,000, Series B required $100,000, and Series C requires a minimum investment of $10,000. The lower investment minimum for Series C was established to make it a more affordable investment for a larger number of people.

CSI has already raised the desired $2 million through the above bonds. The organization sold out of Series A and B even before the closing of the deal in May 2010. Series C, however, is still available, but only to the community. And that is because Tonya wants the community to buy out the bank! CSI is a community asset, and Tonya would like to keep it as such.

The return on the bonds will be paid from rental income derived from the tenants, and the intention is for CSI to use a combination of operating surpluses, proceeds from the community bonds and access to capital campaign fundraising over a period of 15 years following acquisition to retire the principal of investor funds and become full owner of the property.

The Challenges

It was no simple matter to accomplish all of the above, of course. And for a no holds barred insight into the challenges faced, I went straight to the voice of the revolution, Tonya:

"Our goal was simple – to offer a 'buy-local' impact investment. I want to serve my community, not the bank. But how do we break down the systems that are designed to ensure that the rich get richer? Our financial systems are designed to 'protect' for anything different. How does one innovate in this context? Every step has been a risk! My amazing board and staff team have had to be willing to push the boundaries of banking compliance departments at every step. And we do it with the goal of transforming a system and offering practical tools to enrich our communities."

"The challenge wasn't even the rules," adds Tonya. "We knew that we could do what we did. It was convincing people to interpret the rules in a way that serves the betterment of our communities. And convincing compliance people to do something different. "

This convincing involved the following:

- Clarifying the RRSP eligibility rule. Since mortgages are RRSP eligible, a community bond backed by a mortgage charge on the property could also be RRSP eligible.
- Finding partners that would administer the RRSP. This involved having to build relationships with the big banks to varying levels of success, and eventually finding a partner in Concentra Financial.
- Clarifying what is meant by 'benevolent society' in the Ontario Securities Act. And that is the nonprofit public benefit sector.

Housing Funds: New York City Acquisition Fund

The NYC Acquisition Fund provides local and not-for-profit developers with bridge financing to acquire private property for the construction and preservation of affordable housing. The $200+ million NYC Acquisition Fund provides local and not-for-profit developers with a financial mechanism to acquire private property for the construction and preservation of affordable housing. Up to 30,000 rental, homeownership, and supportive housing units will be created or preserved through the fund by 2016.

The fund guarantee pool consists of $8 million in Battery Park City Authority revenues and $32 million from various foundations, including Ford Foundation, Robin Hood Foundation, Heron Foundation, MacArthur Foundation, Rockefeller Foundation, Starr Foundation, New York Community Trust, Gimbel Foundation, Open Society Institute, among others.

Senior lender debt of up to $190 million is available from major banks and financial institutions such as JPMorganChase, Bank of America, Citibank, Deutsche Bank, Fannie Mae, Wachovia, HSBC, North Fork, Mizuho, Merrill Lynch, Signature, and M&T. The banks have provided $160 million in senior debt indexed to the prime rate, and the impact first investors (City of New York, Ford Foundation and Rockefeller Foundation) have funded $40 million in low-interest subordinated loans.

Loans are made for up to three year terms and the interest rate is approximately prime minus 40-60 basis points. For-profit developers can receive loans of up to 95 per cent loan-to-value ratio and non-profit developers can receive loans of up to 130 per cent loan-to-value ratio. There are also cash equity and minimum recourse requirements.

CEDIF Incentives: New Dawn Enterprises, Nova Scotia

New Dawn Enterprises Limited, incorporated in 1976, is the oldest Community Development Corporation in Canada and is a Founding Member of the Canadian CED (Community Economic Development) Network. It is a private, volunteer directed business dedicated to community building. New Dawn seeks to identify community needs and to establish and operate ventures that speak to those needs. New Dawn employs over 175 people from the Cape Breton community and it services 600 Cape Bretoners each day through its companies and projects. In 2011, New Dawn Real Estate administered the construction of eight new SHIMI (Supportive Housing for Individuals facing Mental Illness) units, bringing the total number of New Dawn managed units to twenty-one. Many of these units have been built with financing obtained through New Dawn Holdings, driven by the CEDIF incentives available in Nova Scotia.

Over the last six years, New Dawn Holdings Limited has encountered incredible success in terms of meeting its ever larger Community Economic Development Investment Fund (CEDIF) targets. This success speaks, in part, to the desire of investors for investment opportunities within their own community; investment opportunities that allow them to keep their capital here and contribute to the growth and vitality of Cape Breton Island.

In 2011, New Dawn Holdings raised almost $2.5 million through its CEDIF – the highest one year CEDIF offering in Nova Scotia history. These funds have since provided investment capital to New Dawn Enterprises to help it grow its existing companies, launch new businesses and advance its community building initiatives.

In 2011, New Dawn Holdings welcomed 185 new investors with an average investment of $10,600, bringing the total number of New Dawn Holdings investors to 267. New Dawn expects this number to continue to grow over the years as more and more people realize the benefits of investing locally.

Each year Nova Scotians invest more than $600 million in RRSPs and less than 2% of this is reinvested in Nova Scotia. With a Community Economic Development Investment Fund, local investment dollars stay in Cape Breton. This powerful and increasingly popular vehicle thus allows investors, organizations and businesses to take new steps toward the vision of a self-reliant people in a vibrant and sustainable community.

What is a CEDIF?[19]

A CEDIF is a pool of capital, formed through the sale of shares (or units), to persons within a defined community, created to operate or invest in local business. It cannot be charitable, non-taxable, or not-for-profit, and must have at least six directors elected from their defined community.

An investment fund is an entity that offers its shares or units to various investors so as to provide a cost-effective means of obtaining diversified investments. Income is earned primarily through interest, dividends and capital gains. In recent years, the growth of financial assets has skyrocketed. It is estimated that more than one-third of Canadian households now own mutual funds.

[19] As derived from Government of Nova Scotia, Economic and Rural Development and Tourism: http://www.gov.ns.ca/econ/cedif/background/.

This program is for economic development, and the project must have a measurable, financial return. It is not meant as an alternative manner to finance projects which are more accurately described as municipal infrastructure. For example, a community may want to develop a park facility which it feels will bring benefits to the local population. While this is a worthwhile endeavour it does not produce a revenue stream and is therefore not an eligible use of funds raised through a CEDIF.

A CEDIF must develop within the community. Any individual or group can form a working group to investigate the possibility of starting a CEDIF in their community. A CEDIF need not be large at its formation. A small initial offering followed by annual, or semi-annual offerings will quickly grow to be a substantial capital pool for local investments.

The CEDIF program offers a 35 per cent tax credit for Nova Scotians who put their investment capital in designated funds.

GLOSSARY OF FINANCIAL TERMS

This resource was developed by the **Nonprofit Finance Fund** and can be found here:

http://nonprofitfinancefund.org/financial-terms

A

ACCOUNTS PAYABLE - Money owed by an organization to its suppliers and/or vendors for goods or services purchased.

ACCOUNTS RECEIVABLE - Money owed to an organization for goods and services it has sold or that has been committed to it as a grant or donation. Also called grants receivable.

ACCRUED EXPENSES OR LIABILITIES - Items incurred during an accounting period for which payment is postponed. Examples include accrued salaries, accrued sales tax payable, and accrued rent payable.

ACCUMULATED DEPRECIATION - The total amount the value of fixed assets has decreased to date due to general wear and tear or obsolescence.

AIA DOCUMENT G702 - A form created by the American Institute of Architects to document the costs of work completed as of a certain date and the cost of work yet to be completed under a construction contract. Often used to track amounts that can be advanced by a lender to a borrower under a construction loan and helpful to ensure that there are sufficient funds remaining to complete and pay for the contract.

AMORTIZATION - Repayment of loan principal and interest. A loan can be amortized in several ways, including: (a) in equal installments of principal and interest, often called "mortgage amortization," where the interest component of the payment reduces as the principal is paid down; (b) in regular payments of varying amounts, often called "commercial amortization," which result from paying off a constant principal each installment plus interest on the amount of principal owed; and (c) in very irregular principal payments plus interest, often incorporating a larger final payment. Any time the loan maturity is shorter than the amortization term, a balloon balance will result. See balloon.

APPRAISAL - A formal report usually created by a certified real estate appraiser evaluating a real estate property in order to determine its value. One or more of three valuation methods are used: cost, replacement value, and market value. Appraisals can be 'as is' or 'as improved' which includes the value created by future capital expenditures.

ASSETS - An item of current or future economic benefit to an organization. Examples include: cash, short-term investments, accounts receivable, grants receivable, inventories, prepaid expenses, buildings, furniture, equipment, vehicles, and long-term investments.

ASSUMED NAME - An alternate name under which an individual or a legal entity may conduct business. Also known as a dba or doing business as name. In a loan transaction, it is critical to know the correct legal name of an entity and document it accordingly and accurately. See certificate of incorporation.

AUDIT - A financial statement as of a certain date, usually covering a twelve-month period, prepared by a Certified Public Accountant (CPA), that includes an opinion letter, a statement of financial position (balance sheet), a statement of activities (income statement), a statement of cash flows, and notes. An auditor can have an unqualified opinion, stating that the organization appears to have followed all accounting rules appropriately and that the financial reports are reasonably accurate representation of the company's financial condition, or a qualified opinion, highlighting certain compliance issues or limitations in the company's statements. See review and compilation.

AUTHORIZATION OF BORROWING - A resolution passed by a board of directors or trustees acknowledging and approving the incurrence of debt. Also known as a borrowing resolution. See officer's certificate.

B

BALANCE SHEET - Statement showing an organization's financial position (assets, liabilities and net assets) at the close of business on a particular date. Also known as statement of financial position. (This statement changes daily.)

BALLOON - Final payment of a loan which is larger than the previous payments, arising when the amortization is longer than the maturity of the underlying note. See amortization.

BASIS POINTS - A fraction of a percentage point, equal to one one-hundredth of a percent. Used to describe interest rates; i.e., 50 basis points is the same as ½%. See points.

BOARD-DESIGNATED NET ASSETS/RESERVES - Unrestricted net assets that have a defined use or purpose, as determined by an organization's board of directors.

BORROWED MONEY/FUNDS - See debt.

BORROWING BASE - A mechanism for monitoring that funds advanced under a line of credit bear some proportionality to either the asset being financed or the source of repayment. Usually defined as a percentage less than 100% of the available collateral, for instance, 80% of eligible accounts receivable. In order to fully secure a $100,000 line of credit using an 80% advance ratio, the borrower must have $125,000 in eligible accounts receivable at the time the loan is advanced. Typical advance ratios range from 50 to 80%. A borrowing base may be used as a control mechanism even if the loan is not secured by a lien on the receivables. See line of credit.

BORROWING RESOLUTION - See authorization of borrowing and officer's certificate.

BRIDGE LOAN - Loan made on a short-term basis in anticipation of being paid out by permanent or long-term funding. Also refers to loans made against contract receivables or capital campaign pledges, expected to be repaid as those receivables or pledges are collected.

BUILDING CODE - Regulations, ordinances or statutory requirements of a governmental unit relating to building construction and occupancy.

BUILDING PERMIT - Permission granted by a local government to build or renovate a specific structure at a particular site. More than one permit may be required, depending on the situation.

BUILDING RESERVE - A capital improvement reserve fund. Money set aside to pay for facility upkeep, where the amounts can be large, the ultimate need a certainty, but where the exact timing is uncertain. These are often big-ticket items, like replacing the roof, which are difficult to accommodate in a single year's budget. Also known as a replacement reserve. Typically, these are unrestricted, but board-designated funds.

BY LAWS - A document outlining the governance of and what activities a legal entity may or may not engage in, including defining the officers, outlining the board composition and terms, the frequency of board meetings, the authority to enter into contracts for borrowing money and other purposes, and the number of signatures required to bind the entity legally.

C

CAPITAL - Money available for an organization's use in business transactions. [Can also be referred to as what an organization has and how it is distributed: Assets, Liabilities, and Net Assets.] See working capital.

CAPITAL CAMPAIGN - A fundraising drive that takes place outside of (and in addition to) annual operating fundraising, usually to raise funds for a facility (or capital project), an endowment, and/or reserves.

CAPITAL IMPROVEMENT - A facility or equipment upgrade (as distinguished from maintenance or repair) that will have a life of more than one year, and that adds to an organization's asset base. While sometimes considered an "expense," this item should not show up on the Statement of Activities. Instead it should be capitalized and depreciated over its useful life and show up on the Statement of Financial Position as an increase in fixed assets and therefore on the Statement of Cash Flows in the investing section.

CAPITAL PROJECT - See facility project.

CAPITALIZATION - The distribution, nature and magnitude of an organization's assets, liabilities and net assets. Also known as capital structure. Healthy organizations make choices about how they are capitalized, understanding the relative risks and merits of various options—e.g., whether to buy a building or grow an endowment. Also, "capitalized" refers to the purchase of fixed assets which do not appear on the income statement, but on the balance sheets, where they are depreciated over their useful life.

CASE STATEMENT - A case for support, written primarily for a capital campaign, that outlines an organization's history, current status, future plans, including facility plans, and fundraising objectives. The case statement helps align board members, funders, and supporters to a shared organizational vision.

CASH FLOW - The receipt and disbursement of monies.

CASH FLOWS FROM FINANCING ACTIVITIES - Payments and/or receipts from lines of credit, notes payable, term loans.

CASH FLOWS FROM INVESTING ACTIVITIES - Payments and/or receipts from acquisitions or sales of marketable securities, as well as from fixed assets such as property & equipment.

CASH FLOWS FROM OPERATING ACTIVITIES - Cash changes in working capital items, such as accounts and grants receivable, inventory, accounts payable, accrued liabilities and deferred revenue.

CERTIFICATE OF INCORPORATION - A document usually issued by a government authority such as a secretary of state documenting that a legal entity has been formed, including when and where and its full legal name.

CERTIFICATE OF OCCUPANCY (C OF O) - A document from a local government building department which authorizes use of a certain space for specified activities by a certain number of people. Often required on construction projects prior to the entity occupying the space being allowed to move in.

CHANGE IN NET ASSETS - Net assets are calculated by taking total revenue (including restricted and non-operating) less total expenses (including non-operating). The change in total net assets is an overall representation of a "bottom line."

CHANGE ORDER - A written order to a facility project

CLEAN-UP - Term used to describe the requirement by the lender that a line of credit be completely paid out for a pre-defined period, usually a minimum of 30 days, during a one-year cycle. Also known as annual clean-up period.

CLOSING COSTS - Expenses involved in transferring real estate from a seller to a buyer, including lawyer's fees, survey charges, title searches and insurance, and fees to file deeds and mortgages.

CLOSING FEE - A fee charged by a lender to provide a loan to a borrower. Considered compensation for the costs involved with underwriting the loan and holding the commitment available for a specified period of time until closing. The fee is often paid partially at application, partially at the acceptance of the commitment and partially at closing. Also known as commitment fee and facility fee.

COLLATERAL - Asset pledged to a lender until a loan is repaid; also called security. If the borrower defaults, the lender has the legal right to seize the collateral and sell it to pay off the loan.

COMMITMENT FEE - See closing fee.

COMMITMENT OR COMMITMENT LETTER - A statement in writing outlining and acknowledging the terms of a lender

COMPILATION - A financial report as of a certain date, usually covering a twelve-month period, put together, but not reviewed or audited, by a Certified Public Accountant (CPA) that includes a statement of position (balance sheet), a statement of activities (income statement), a statement of cash flows, and may or may not have notes. See audit and review. The CPA states no opinion about the accuracy of the statements.

COMPOUND ANNUAL GROWTH RATE - A calculation that estimates average annual percentage growth over a specified period of time, e.g., an organization that had $100K in revenue in 2000 and $500K in revenue in 2004 has a CAGR of X%.

CONSTRUCTION DOCUMENTS - Drawings, specifications and legal documents setting forth in detail the requirements for the construction of the project.

CONSTRUCTION LOAN - A loan, usually short-term, which is made to finance construction. The funds are disbursed as needed or in accordance with a pre-arranged plan, and the money is repaid upon completion of the project, often from the proceeds of a long-term loan, e.g., a mortgage.

CONSTRUCTION MANAGER - A licensed general contractor who provides pre-construction services, professional management and technical services, including helping identify cost-effective means of meeting facility requirements. See project manager.

CONTINGENCY - An amount budgeted (usually a percentage of total construction costs) to cover unexpected hard costs or soft costs.

CONTRIBUTED REVENUE/INCOME - Revenue or income received from individual, foundation, corporate, or government donations with no products or services provided by the organization in direct exchange for the funds. See earned revenue/income.

CREDIT/FINANCIAL ANALYSIS - Process used to understand and analyze the financial history and future prospects of an organization. May be done to help the organization understand its financial underpinnings, determine the likelihood that an organization can complete a project successfully or the likelihood that an organization can repay a loan. See underwriting process.

CURRENT ASSETS - Items that generally will be turned into cash, sold, or consumed within one year.

CURRENT DEBT - Obligations due in one year or less from the date of a financial statement. It includes advances under lines of credit, notes with maturities of one year or less, and the current portion (amount due in the next twelve months) of long-term debt.

CURRENT GRANTS & PLEDGES RECEIVABLE - Money owed to an organization within the upcoming twelve months for goods and services it has sold or that have been committed to the organization as a grant, donation or pledge.

CURRENT LIABILITIES - Obligations that will usually be repaid within one year.

CURRENT PORTION OF LONG-TERM DEBT - Amount of principal on long term debt due within one year. Interest is not included in this amount.

CURRENT RATIO - Comparison of current assets to current liabilities, commonly used as a measure of short-run solvency. A ratio of 1:1 means an organization would have just enough cash to cover current liabilities if it ceased operations and converted its current assets to cash.

D

DAYS PAYABLE - The number of days on average it takes for an organization to pay bills that it owes to outside vendors.

DAYS RECEIVABLE - The number of days on average it takes for an organization to collect receipts it is owed.

DBA - Doing business as. See assumed name.

DEBT - An amount owed to a person or organization for money borrowed. Debt can be represented by a promissory note, bond, mortgage or other form stating repayment terms and interest requirements. Debt may or may not secured by a pledge of assets. Also known as borrowed money or borrowed funds.

DEBT SERVICE - Required repayment of principal and interest for a loan, usually expressed annually. (Note: financial statements prepared on an accrual basis will show interest expense on the Statement of Activities, while principle will appear on the Balance Sheet.)

DEFAULT - There are two types of default: Debt service default occurs when a borrower fails to make a scheduled payment of interest or principal on a loan. Technical default occurs when a covenant of the loan is violated.

DEFERRED REVENUE/INCOME - Payment received from a client for a transaction that has not yet occurred (e.g., subscription purchase for performances held on future dates). This situation creates an obligation, and thus a liability, for the organization to provide goods or services in the future. (Note: Financial Accounting Standards 116 and 117 reduced substantially the instances in which nonprofits should use such categorization by introducing the concept of temporarily restricted net assets.)

DEFICIT - The excess of expenses over revenue during an accounting period. Deficits can be measured before or after depreciation and non-operating activities. See surplus.

DEPRECIATION - A non-cash expense associated with reducing a fixed asset's book value due to general wear and tear over its defined accounting or useful life. Depreciation is only an approximation of the amount needed to replace fixed assets.

E

EARNED REVENUE/INCOME - Revenue or income received by an organization in exchange for its products or services, e.g., tuition or performance-based government contracts. See contributed revenue/income.

ECONOMIES OF SCALE - Theory that the more you produce of a good or service, the less it costs for each additional unit, i.e. efficiency.

ENVIRONMENTAL AUDIT PHASE I - A report usually issued by an environmental engineering or other qualified entity to determine the risk or reality of environmental contamination of a real estate property. The terms of a real estate purchase often require the seller to pay for and supply a satisfactory Phase I audit as a condition of the sale, and a lender taking a mortgage on a real estate property will usually require a satisfactory review of the environmental report prior to closing the loan transaction. If the report is inconclusive or reveals possible contamination, more testing in the form of a Phase II may be required.

EQUITY - Represents the difference between an asset's market value and the amount of debt associated with that asset. Also refers to the amount a developer or owner invests in a project. In for-profit accounting, refers to the difference between total assets and total liabilities and may be called "owners' equity."

EXPENSES - Represent the total cost of operating the organization, including payments made to employees and other parties, including operating expenses, debt, principal payments, capital expenditures, non-cash expenses, fixed assets, and funds set aside each year for future use.

F

FACILITY FEE - See closing fee.

FACILITY PROJECT - The acquisition of a building or other physical space through purchase or leasehold; a renovation; a construction project; a relocation; a change in number of sites; or an equipment purchase. Any project that involves a change in a facility. Also known as a capital project.

FASB - Financial Standards Accounting Board. Independent board responsible for establishing and interpreting generally accepted accounting principles (GAAP). Financial Accounting Standards 116 and 117 govern the nonprofit sector. FAS 116 deals with contributions made and received while FAS 117 deals with financial statement format.

FEASIBILITY STUDY - A determination of the likelihood that a proposed idea, plan or project will fulfill certain economic and operational objectives. Often undertaken to predict the viability of a new venture, facility project or capital campaign.

FINANCIAL STATEMENT - A written report that quantitatively describes the financial health of an organization. A complete financial statement includes a balance sheet, an income statement, a statement of cash flows, and often a statement of functional expenses. Financial statements are usually compiled on a quarterly and annual basis. The term financial statement is commonly used to describe the statement of activities alone, which does not provide a complete picture of an organization's financial health/situation.

FIXED ASSETS - The net worth of the physical items an organization owns (e.g., property, building, equipment, improvements), which cannot easily be converted to cash. Often called property & equipment (P&E).

FIXED PRICE CONTRACT - In construction, a contract between the owner/developer and the general contractor where the contractor agrees to complete the project for a sum fixed in advance regardless of cost.

G

GAAP - Generally Accepted Accounting Principles. A widely accepted set of rules, conventions, standards, and procedures for reporting financial information, as established by the Financial Accounting Standards Board.

GENERAL CONDITIONS - The portion of the construction contract document in which the rights, responsibilities, and relationships of the involved parties are itemized. Items include security, job site insurance, temporary structures, demolition and utilities.

GENERAL CONTRACTOR - The main contractor for a project who provides on-site management of the construction project and performs the actual construction work or hires smaller, more specialized subcontractors to perform specific tasks.

GMP CONTRACT - Stands for Guaranteed Maximum Price contract and is a term used in construction projects to define the most money that the agreed upon construction specifications can cost. Also referred to as fixed price, as distinct from contracts priced at time plus materials. Generally thought to protect the client from unexpected cost overruns.

GOOD STANDING CERTIFICATE - A document issued by a government authority, usually a secretary of state, affirming that a legal entity such as a corporation or partnership has complied with all of that authority's filing requirements to be duly organized and authorized to do business in that state. It does not warrant anything regarding payment of taxes owed to the government authority.

GRANTS RECEIVABLE - See accounts receivable.

GUARANTEE - A formal obligation by a third party to provide repayment of a loan owed by another entity should that entity default on the loan. The guarantor may be an individual or a corporation.

H

HARD COSTS - The direct costs to construct a building or structure, otherwise known as 'bricks and mortar' costs, as distinguished from legal, financing, architects', and similar fees required for the project but that are not visible in the physical structure. See soft costs.

HVAC - An acronym referring to Heating, Ventilation, and Air Conditioning systems, which in a modern building usually come as a package.

I

IN-KIND - Non-cash items of value, such as specialized volunteer labor, donated goods or professional services. Specific accounting rules govern the recognition of in-kind revenue and expenses. In-kind expenses typically equal in-kind revenue on the income statement.

INCOME STATEMENT - A summary of the revenue and expenses of an organization during an accounting period. Also known as statement of activities or profit and loss statement.

INTER-CREDITOR AGREEMENT - A legal document outlining the rights of two or more lenders with loans to the same borrower. Often defines the positions of the lenders with respect to priority of collateral filings, principal and interest repayment, and priority of repayment in the event of liquidation of the borrower or collateral.

INTEREST - One of the costs of using money, usually expressed as an annual percentage, that a lender charges a borrower for the use of the principal over time.

INTEREST ONLY - A loan in which the payments represent only the interest accrued for a period of time. The entire loan amount (principal) is then either amortized over an agreed upon time period, or paid off in one lump sum payment (balloon).

IRS DETERMINATION LETTER - A document issued by the Internal Revenue Service to a nonprofit organization confirming its status as an organization exempt from paying federal income taxes and stating the type of exempt organization, for instance, 501(c)(3) and the date of that exemption.

L

LEASEHOLD IMPROVEMENTS - Renovations to leased space to suit the renter's needs. These may be paid for either by the landlord or the tenant.

LETTER OF CREDIT - An instrument or document issued by a bank guaranteeing the customer's payment up to a stated amount during a specified period, for which the customer is charged a fee. It substitutes the bank's credit for the buyer's and eliminates the seller's risk. It may be a commercial letter of credit, more often seen in international commerce, or a standby letter of credit.

LETTER OF INTENT - A non-binding proposal from a lender indicating under what terms it would consider lending a certain sum of money to a specific borrower. See commitment.

LIABILITY - Items owed by an organization or claims against its assets. Examples include: accounts payable, accrued salaries and benefits, accrued payroll taxes, deferred revenue, lines of credit, construction loans, current portion of long-term debt, short-term notes payable, and long-term debt.

LIEN - A legal claim against an asset which is used to secure a loan and which must be paid when the asset is sold. Liens can be structured in different ways. In some cases, the creditor will have legal claim against an asset, but not actually hold it in possession, while in other cases the creditor will actually hold the asset until the debt is paid off.

LINE OF CREDIT - A loan in which the lender allows advances up to a specific amount over a specific period of time until the maturity date. It is usually revolving, meaning amounts repaid can be re-borrowed up to the total committed amount and/or the limitations of a borrowing base.

LIQUID NET ASSETS - The estimated amount of unrestricted net assets NOT invested in property & equipment (P&E) or board-designated reserves. Essentially this is the liquid amount of unrestricted net assets available to support operations. Also known as undesignated unrestricted net assets.

LIQUIDITY - A measure of how much cash and "near cash" (assets readily convertible to cash such as marketable securities) an organization has available, usually measured as the amount of assets in cash or cash equivalents less current liabilities. Can also include the unused amount from lines of credit that are available to the borrower.

LLC - Limited liability company, a business structure that is a hybrid of a partnership and a corporation. Its owners are shielded from personal liability, and all profits and losses pass directly to the owners without taxation of the entity itself.

LOAN CLOSING - Legal session where final loan documents are executed. The loan may or may not be funded at this time.

LOAN DOCUMENTS - Documents containing the terms of the loan and outlining the rights and obligations of the borrower and the lender. May include the following: the loan agreement which details the terms of the loan including interest rate and repayment; the note or promissory note whereby the borrower promises to repay the obligation; any security agreements or mortgage, outlining the collateral securing the loan; the guarantee; and, subordination and/or inter-creditor agreements.

LOAN TERM - The amount of time over which a borrower is expected to repay the loan. The loan term may not be the same as the amortization, which determines the periodic repayment amounts and whether there is a large or balloon principal balance due at maturity.

LOAN-TO-VALUE RATIO - The ratio of the amount of money a lender is willing to lend divided by the appraised or other value of the property.

LOC - See line of credit.

LONG-TERM DEBT - Debt obligations due in longer than one year. It includes multi-year term loans, mortgage loans, and capitalized long-term leases.

LONG-TERM GRANTS & PLEDGES RECEIVABLE - Money owed to an organization in more than a year for goods and services it has sold or that have been committed to the organization as a grant, donation or pledge. The organization will not get the money for more than a year.

M

MATURITY DATE - The date on which a loan obligation must be repaid.

MIS-CAPITALIZATION - Often the consequence of misguided practices perpetuated by nonprofit organizations and their supporters alike. For example, many organizations operate with only enough unrestricted revenue to cover program and operating expenses. This is considered acceptable, when in fact many organizations have annual expenditures that exceed operations alone. Excess cash is often seen as "hoarding," even though savings are usually indicative of long-term planning and risk management. Buildings and endowments are typically the only forms of capital associated with long-term stability, yet often these assets contribute to financial instability, particularly when other more liquid forms of capital aren't built alongside. Other contributors to mis-capitalization include current nonprofit accounting and reporting practices, which conflate capital with revenue. Capital investments (whether for change or other capital purposes, such as facility projects) are typically not segregated from regular operating revenue and, therefore, distort the revenue reality by making an organization look healthier than it may be. Such practices diminish transparency about how nonprofit organizations are managing their resources. As a result, most organizations lack enough of the right kinds of money at the right times to change, grow, innovate, take risk.

MONTHS OF CASH - The number of months the organization could operate with current cash reserves. The cash position at some point in time (usually at fiscal year end) divided by the average monthly operating expense before depreciation.

MONTHS OF UNDESIGNATED UNRESTRICTED NET ASSETS - Number of months of truly liquid and unrestricted net assets available to meet daily needs.

MORTGAGE - Security instrument by which the borrower (mortgagor) gives the lender (mortgagee) a lien on property as collateral for the repayment of a loan.

N

NET ASSETS - The difference between total assets and total liabilities, effectively net worth. Net assets are categorized as unrestricted, temporarily restricted, or permanently restricted.

NET ASSETS RELEASED FROM RESTRICTIONS - The transfer of funds from restricted net assets to unrestricted net assets due to the satisfaction of donor-imposed stipulations with respect to timing or purpose of the contribution.

NET FIXED ASSETS, OR NET PROPERTY & EQUIPMENT - Net worth of property and equipment after accumulated depreciation. See property & equipment.

NET WORKING CAPITAL - See working capital.

NON-OPERATING ACTIVITIES - Revenue and expenses not directly related to the organization's program or other main activities. They can include capital campaign grants, expenses related to capital projects, gains/losses in the investment portfolio, and one time or extraordinary transactions such as the sale or write-off of assets. May also be used to account for dollars passed through an organization—e.g., re-grant funds.

NON-OPERATING DEBT - Debt that does not relate to the organization's main business and program activities, or day-to-day operations (e.g. loans to finance fixed assets and buildings).

NON-OPERATING NET ASSETS - Temporarily restricted resources not directly related to the organization's programs or activities, e.g., capital campaign funds.

NON-OPERATING REVENUE - Revenue not directly related to an organization's programs or activities, such as capital receipts and temporarily or permanently restricted revenue.

NON-USE FEE - A fee paid by the borrower on the average amount of the commitment that was not drawn or used. A typical non-use fee is 0.5%, or 50 basis points. Typically assessed on revolving lines of credit but may also be assessed on other types of loans. Charged by a lender as compensation for keeping an undrawn line of credit available to the borrower.

NOTE - A document signed by the borrower evidencing the debt. See promissory note.

O

OCCUPANCY EXPENSES - All costs relating to the rent, utilities, insurance and maintenance of program and office space.

OFFICER'S CERTIFICATE - A certificate signed by an officer of the corporation stating that at a duly called board meeting the referenced board resolution was adopted and that resolution remains in effect. See authorization of borrowing and borrowing resolution.

OPERATING ACTIVITIES - Items that relate to the organization's main business or program activities. They may also be referred to as "above the line" activities (meaning they are included in the calculation of the operating surplus or deficit - the "bottom line"). See non-operating activities.

OPERATING DEBT - Debt to support the organization's main business or program activities, and day-to-day operations (e.g. line of credit).

OPERATING EXPENSES - The regular costs of doing business. Excluded are one-time, extraordinary or capital items such as funds passed through to other agencies, losses from sale of property, realized/unrealized investment gains or payments of debt principal.

OPERATING RESERVE - Funds set aside annually to be used to offset possible operating losses due to unexpectedly low revenue or high operating costs (a.k.a rainy-day reserve).

OPERATING REVENUE - Funds received as unrestricted or released from temporary restriction to cover operating expenses. Excluded are one-time/episodic sources of income (such as capital campaign receipts, realized/unrealized investment gains and losses, gains from sale of property, and/or other extraordinary items) and all restricted revenue.

OPINION OF COUNSEL - A letter provided by an attorney representing the borrower in a debt or loan transaction affirming that the documents the borrower is signing represent a binding commitment on the borrower to repay the indebtedness according to the terms outlined in the documents. A non-contravention opinion also affirms that the execution of the loan documents does not violate any other obligations the borrower may have.

OWNER - The entity which hires an architect and contractors to design and complete a facility project. The owner need not actually own the facility being improved, e.g., a building tenant can be the "owner" when undertaking leasehold improvements.

OWNER'S REPRESENTATIVE - The person designated as the official representative of the owner in connection with a project, especially in monitoring construction progress on-site. See project manager.

P

PASS-THROUGH REVENUE - Funds provided to the organization that must be spent on behalf of, or passed through to a secondary recipient. For example, re-grants.

PERMANENTLY RESTRICTED NET ASSETS - Funds with donor-imposed stipulations that the principal not be spent, e.g., traditional endowments; some or all of the earnings are available for specific or general operations.

PHASE I - See environmental audit phase I.

POINTS - Traditionally the fees paid by borrowers to induce lenders to make a mortgage loan; the payment of additional points may result in a reduced rate to the borrower. Also used as a shortened version of basis points and therefore might be used as a substitute for commitment fee, facility fee, or closing fee as in "How many points do you charge?"

PREPAID EXPENSES - Items an organization pays for in advance of their being due. Examples include insurance premiums and rent that may be paid for a twelve-month period at the beginning of the year.

PRIME RATE - A national average rate of interest charged by banks, commercial lenders, and other financial institutions, published in The Wall Street Journal and other sources.

PRINCIPAL - The amount of money that is borrowed, and that the borrower must pay back, as distinct from interest, which is the amount owed for using or borrowing the funds.

PRO FORMA INCOME AND EXPENSES - Statement showing the projected annual income and operating expenses of an organization to reflect a future event such as completion of a project.

PROFIT AND LOSS STATEMENT - See income statement.

PROJECT MANAGER - The individual assigned or hired to manage and coordinate all aspects of the project. See construction manager and owner's representative.

PROMISSORY NOTE - See note.

PROPERTY & EQUIPMENT (P&E) - The net worth of the physical items an organization owns (e.g., property, building, equipment, improvements), which cannot easily be converted to cash. Often called fixed assets.

R

RATIO ANALYSIS - Conversion of financial numbers into ratios, often used as a tool to evaluate financial trends and health of an organization.

REAL ESTATE BROKER - A licensed agent who acts as the middle person between a buyer and a seller of property. A broker, acting as a tenant's representative, can identify suitable spaces and negotiate a lease that meets the tenant's needs.

RENOVATION - General term applied to the process of upgrading an existing building, which can range from minor changes to major reconstruction. Gut rehab refers to major reconstruction, typically involving demolition of all but the "guts" of a building before renovating it. Also known as rehab.

REPLACEMENT RESERVE - See building reserve.

REQUEST FOR PROPOSALS (RFP) - A request sent to prospective consultants or contractors, once the scope of the project is clearly defined, which includes everything requested in an RFQ, plus a proposal of how the consultant would approach the work and what fees would be involved.

REQUEST FOR QUALIFICATIONS (RFQ) - A request sent to prospective consultants or contractors asking for basic information about areas of expertise, references from former clients, services, methods and fee structure.

RESERVES - Money set aside to pay for future anticipated expenses. Reserves can be established for many purposes, including: emergencies/rainy days, capital improvement and building replacement needs, future investments, and general operations.

RESTATEMENTS - Revisions of an organization's earlier financial statements. The need for restatements can result from fraud, misrepresentation or a simple clerical or calculation error.

REVENUE - Payments for services, donations from individuals, foundations and corporations, support and contract payments from government agencies, income from fundraising activities, and investments.

REVIEW - A financial report as of a certain date, usually covering a twelve-month period put together and reviewed, but not audited, by a Certified Public Accountant (CPA) that includes a statement of position (balance sheet), a statement of activities (income statement), a statement of cash flows, and may have notes. A review is not considered as independent a financial report as an audit would be but requires a higher level of due diligence than a compilation. See audit and compilation.

REVOLVING LINE OF CREDIT - See line of credit.

S

SCOPE OF WORK - A detailed description of what work is to be done for a specific project.

SECURITY - Real estate or personal property used as collateral to back up a loan, which gives the lender tangible property that may be sold upon default to pay off the indebtedness.

SECURITY AGREEMENT - A legal document executed by a borrower granting a lender an interest in certain of the borrower

SHORT-TERM DEBT - Debt due one year or less from the date of a financial statement. Includes advances under lines of credit, notes with maturities of one year or less, and the current (amount due in the next twelve months) portion of long-term debt.

SOFT COSTS - Expenses, other than "bricks and mortar, incurred in developing a real estate project. These costs include financing fees, fundraising fees, interest costs, inspection fees, permits, architectural, and legal fees. See hard costs.

STAKEHOLDER - Anyone with concern for or about an organization such as board members, trustees, subscribers, members, clients, staff, donors and former donors, foundations, corporations and volunteers.

STATEMENT OF ACTIVITIES - Summary of the revenue and expenses of an organization during an accounting period. Also known as income statement or profit and loss statement.

STATEMENT OF CASH FLOWS - Summary of the sources and uses of cash that reconciles cash at the beginning of the year with cash at the end of the year, organized into three categories: cash flows from operating activities, cash flows from financing activities, and cash flows from investing activities. See cash flow.

STATEMENT OF FINANCIAL POSITION - See balance sheet.

SUBORDINATED LOAN - A loan that is behind the claim of other lenders and repayable in liquidation only after other debts with a higher claim or priority have been satisfied. Loans can be subordinated by their terms or by their collateral or lien position. Regularly scheduled payments of principal and interest may often be made even though the debt is subordinated.

SURPLUS - The excess of revenue over expenses during an accounting period. Surpluses can be measured before or after depreciation and non-operating activities. See deficit.

SURVEY - A document prepared by a surveyor or other qualified entity uniquely identifying the location and boundaries, including the legal description, of a real estate property. Usually required by the purchaser of the property and a mortgage lender.

SWING SPACE - Interim space occupied during a construction/renovation project.

T

TEMPORARILY RESTRICTED CASH (CURRENT) - Revenue with time or purpose restrictions that are set to be satisfied within twelve months, releasing the unrestricted revenue to the organization within the year.

TEMPORARILY RESTRICTED CASH (NON-CURRENT) - Revenue that will not be released from time or purpose restrictions for organizational use for more than a year.

TEMPORARILY RESTRICTED NET ASSETS - Accumulated net assets with a donor-imposed time or purpose restriction that, once satisfied, become released.

TERM - The length of time that a loan is outstanding.

TITLE REPORTS - Any of several types of reports, including searches, commitments, and insurance policies, prepared by a title insurance company documenting the ownership history of a real estate property. A title commitment is prepared prior to issuing a title insurance policy for a mortgage loan, which confirms the ownership of a property.

TRIPLE NET LEASE - A lease in which the tenant pays, in addition to rent, its portion of the utilities, taxes, and insurance related to the operation of the property. If only one or two of these expense categories are the responsibility of the tenant, the lease is referred to as single- or double-net, respectively.

U

UCC (UNIFORM COMMERCIAL CODE) - A set of standards for all U.S. states to follow for certain types of commercial transactions. A UCC filing, also known as a UCC-1 or a UCC-1a for the name of the form used for it or a financing statement, serves as public notice of a lender's claim on certain assets of a borrower. See security agreement.

UNDERWRITING PROCESS - Process used to analyze the financial condition of the organization and its project (where applicable) in conjunction with the terms and conditions of a loan and the ability of a loan applicant to meet those terms and conditions See credit analysis.

UNDESIGNATED NET ASSETS - Unrestricted net assets less board-designated assets and net investments in plant and equipment. This balance represents net assets generally available to meet operating needs.

UNDESIGNATED UNRESTRICTED NET ASSETS - The estimated amount of unrestricted net assets NOT invested in P&E or board-designated reserves. Essentially this is the liquid amount of unrestricted net assets available to support operations. Also known as liquid net assets.

UNRESTRICTED NET ASSETS - Funds that have no external restriction as to use or purpose.

UNSECURED DEBT - A loan obligation that is not backed by the pledge of specific collateral.

W

WORKING CAPITAL - Strict accounting definition is current assets less current liabilities. But it is often used to describe the amount of liquidity an organization has at its disposal; i.e. how much cash and near cash it has on hand or has ready access to (e.g. unused line of credit) in order to meet its obligations as they come due.

SECTION FOUR: SUPPLEMENTARY RESOURCES

Online resources

- SocialFinance.ca's *Your Guide to Social Finance*: http://socialfinance.ca/guide
- Nonprofit Finance Fund's Preparing to Scale Impact (presentation)
    - How can you assess nonprofit financial health most effectively before undertaking or investing in efforts to scale impact? What trends and metrics are most critical to understanding whether a nonprofit organization is prepared to manage the risks associated with growth or change? In this participatory webinar, we share with you what we've learned about financial readiness for scaling impact. The session provides a financial framework for investing in growth and instruction on what to look for and why it matters when considering plans for scale.
    - http://nonprofitfinancefund.org/research-resources/preparing-scale-impact
- Imagine Canada's: *Cost of Fundraising Questions & Answers* http://www.imaginecanada.ca/files/www/en/publicpolicy/finance_committee_qa-fundraising_costs_02172012.pdf
    - And The Elephant in the Room – High Cost to Fundraising http://nonprofitrisk.imaginecanada.ca/files/insuranceinfo/en/publications/dana_young_april_2011.pdf
- Ontario Non-Profit Housing Association's Development resources: http://www.onpha.on.ca/AM/Template.cfm?Section=Resources
    - Business Plan Checklist

Reports

- *Turning the Key: Assessing Housing and Related Supports for Persons Living with Mental Health Problems and Illness* http://www.mentalhealthcommission.ca/SiteCollectionDocuments/AtHome-ChezSoi/TurningTheKey_Full_ENG_NEW.pdf
- *Mobilizing Private Capital for Public Good* and the follow up report, *Measuring Progress During Year One* http://socialfinance.ca/taskforce/report