

Tim Horton Children's Foundation, Inc.

Combined Financial Statements
October 31, 2016 and October 31, 2015
(in thousands of Canadian dollars)



April 27, 2017

Independent Auditor's Report

**To the Directors of
Tim Horton Children's Foundation, Inc.**

We have audited the accompanying combined financial statements of Tim Horton Children's Foundation, Inc. (the Foundation), which comprise the combined statements of financial position as at October 31, 2016 and October 31, 2015 and the combined statements of operations, changes in fund balances and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the combined financial statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for the design, implementation and maintenance of internal control as management determines is necessary to enable the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with generally accepted auditing standards in Canada and the United States of America. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

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We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for qualified opinion

In common with many not-for-profit organizations, the Foundation derives revenues from donations, special events and fees for services, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of the Foundation. Therefore, we were not able to determine whether any adjustments might be necessary to receipts, excess of receipts over expenses and cash flows from operations for the years ended October 31, 2016 and October 31, 2015, current assets as at October 31, 2016 and October 31, 2015 and fund balances as at November 1, 2015 and 2014 and October 31, 2016 and October 31, 2015.

Qualified opinion

In our opinion, except for the possible effects of the matter described in the basis for qualified opinion paragraph, the combined financial statements present fairly, in all material respects, the financial position of the Foundation as at October 31, 2016 and October 31, 2015 and the results of its operations and its cash flows for the years then ended in accordance with Canadian accounting standards for not-for-profit organizations.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Tim Horton Children's Foundation, Inc.

Combined Statements of Financial Position

As at October 31, 2016 and October 31, 2015

(in thousands of Canadian dollars)

	2016 \$	2015 \$
Assets		
Current assets		
Cash	6,918	6,073
Accounts and pledged donations receivable (note 3)	403	510
Sales tax recoverable	169	279
Other current assets	197	212
	<u>7,687</u>	<u>7,074</u>
Property and equipment (note 5)	<u>52,791</u>	<u>54,034</u>
	<u>60,478</u>	<u>61,108</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,372	1,973
Bank loan payable (note 7)	2,000	2,000
Automobile lease payable (note 10)	8	24
Due to Restaurant Brands International (note 4)	232	62
	<u>3,612</u>	<u>4,059</u>
Bank loan payable (note 7)	<u>-</u>	<u>2,000</u>
	<u>3,612</u>	<u>6,059</u>
Fund Balances		
Invested in capital assets	52,791	54,034
Externally restricted assets (note 3)	80	103
Unrestricted assets	4,121	1,038
Foreign currency translation (note 3)	(126)	(126)
	<u>56,866</u>	<u>55,049</u>
	<u>60,478</u>	<u>61,108</u>

Commitments (note 10)

Approved by the Board of Directors

Director

Director

The accompanying notes are an integral part of these combined financial statements.

Tim Horton Children's Foundation, Inc.

Combined Statements of Operations

For the years ended October 31, 2016 and October 31, 2015

(in thousands of Canadian dollars)

	2016			2015		
	Unrestricted fund \$	Externally restricted fund \$	Total \$	Unrestricted fund \$	Externally restricted fund \$	Total \$
Receipts (notes 3, 4 and 8)	28,533	1,596	30,129	29,716	1,857	31,573
Camp operating expenses						
Wages and benefits	9,015	23	9,038	8,829	23	8,852
Site maintenance	1,199	-	1,199	1,456	-	1,456
Food and beverage (note 4)	1,624	-	1,624	1,697	-	1,697
Insurance	652	-	652	611	-	611
Property taxes	120	-	120	110	-	110
Sports and program	524	-	524	622	-	622
Commemorative gifts	435	-	435	472	-	472
Carolee House Leadership Bursaries	828	196	1,024	806	72	878
Supplies (note 4)	563	-	563	987	-	987
Utilities	761	-	761	795	-	795
Camper registration	124	-	124	140	-	140
Travel	107	-	107	184	-	184
Consulting fees	10	-	10	21	-	21
New camp development	6	-	6	6	-	6
	15,968	219	16,187	16,736	95	16,831
Transportation costs	4,138	-	4,138	4,214	-	4,214
Fundraising expenses	2,152	151	2,303	2,678	-	2,678
Administration expenses (note 4)	2,037	-	2,037	2,031	-	2,031
Interest expenses - net	83	-	83	17	-	17
Amortization expenses	3,564	-	3,564	2,879	-	2,879
	27,942	370	28,312	28,555	95	28,650
Excess of receipts over expenses for the year	591	1,226	1,817	1,161	1,762	2,923

The accompanying notes are an integral part of these combined financial statements.

Tim Horton Children's Foundation, Inc.
Combined Statements of Changes in Fund Balances
For the years ended October 31, 2016 and October 31, 2015

(in thousands of Canadian dollars)

					2016	2015
	Externally restricted assets \$	Invested in capital assets \$	Unrestricted assets \$	Foreign currency translation \$	Total \$	Total \$
Fund Balances - Beginning of year	103	54,034	1,038	(126)	55,049	52,126
Purchase of property and equipment	-	2,369	(2,369)	-	-	-
Sale (disposal) of property and equipment	-	(48)	48	-	-	-
Amortization of property and equipment	-	(3,564)	3,564	-	-	-
Repayment of bank loan payable for construction of Camp in Pinawa, Manitoba	(1,249)	-	1,249	-	-	-
Excess of receipts over expenses for the year	1,226	-	591	-	1,817	2,923
Fund Balances - End of year	80	52,791	4,121	(126)	56,866	55,049

The accompanying notes are an integral part of these combined financial statements.

Tim Horton Children's Foundation, Inc.
Combined Statements of Cash Flows
For the years ended October 31, 2016 and October 31, 2015

(in thousands of Canadian dollars)

	2016 \$	2015 \$
Cash provided by (used in)		
Operating activities		
Excess of receipts over expenses for the year	1,817	2,923
Amortization expenses	3,564	2,879
Donated property and equipment	(39)	(211)
Loss on disposal of property and equipment	28	28
	<hr/>	<hr/>
	5,370	5,619
Changes in non-cash working capital balances		
Accounts and pledged donations receivable	107	221
Sales tax recoverable	110	(60)
Other current assets	15	11
Accounts payable and accrued liabilities	(601)	(1,974)
Due to Restaurant Brands International	170	156
	<hr/>	<hr/>
	5,171	3,973
	<hr/>	<hr/>
Financing activities		
Proceeds from bank loan	-	4,000
Repayment of automobile lease	(16)	(15)
Repayment of bank loan	(2,000)	-
	<hr/>	<hr/>
	(2,016)	3,985
	<hr/>	<hr/>
Investing activities		
Purchase of property and equipment	(2,330)	(8,847)
Proceeds from sale of property and equipment	20	28
	<hr/>	<hr/>
	(2,310)	(8,819)
	<hr/>	<hr/>
Increase (decrease) in cash during the year	845	(861)
Cash - Beginning of year	<hr/>	<hr/>
	6,073	6,934
Cash - End of year	<hr/>	<hr/>
	6,918	6,073

The accompanying notes are an integral part of these combined financial statements.

Tim Horton Children's Foundation, Inc.

Notes to Combined Financial Statements

October 31, 2016 and October 31, 2015

(in thousands of Canadian dollars)

1 Status of Tim Horton Children's Foundation, Inc.

Tim Horton Children's Foundation, Inc. (the Foundation) is incorporated without share capital under the Ontario Corporations Act. The Foundation is a charitable organization under the Income Tax Act (Canada). As such, it is exempt from income taxes by virtue of paragraph 149(1)(f) of the Income Tax Act (Canada).

Tim Horton Children's Foundation (US), Inc. (the US Foundation) was founded on December 28, 1998. The US Foundation is incorporated without share capital under the Kentucky Non-profit Corporation Act. The US Foundation is a charitable organization and is exempt from income taxes by virtue of paragraph 501(c)(3) of the United States Internal Revenue Code.

The Tim Horton Children's Foundation Joint Venture (the joint venture) was created on December 15, 2000 through a joint venture agreement between the Foundation and the US Foundation for the purpose of operating Tim Horton Camp Kentahten in Campbellsville, Kentucky.

2 Combined basis of presentation

These combined financial statements present the financial activities and financial position of the Foundation, including the results of the US Foundation the joint venture.

The Foundation is the sole member of the US Foundation and thereby controls the US Foundation. Directors of the US Foundation consist of employees of Restaurant Brands International (RBI), directors of the Foundation and external directors.

The Foundation and the US Foundation created the joint venture to operate camps in the United States of America for economically disadvantaged children. The joint venture agreement incorporates a formal cost sharing agreement with the US Foundation in that the Foundation will fund, on an annual basis, the amounts required to operate the camp to the extent the US Foundation is unable to fund these costs.

The Foundation and the US Foundation through its joint venture with the Foundation operate camps for economically disadvantaged children in the following locations:

- Kananaskis, Alberta;
- Parry Sound, Ontario;
- St. George, Ontario;
- Tatamagouche, Nova Scotia;
- Quyon, Quebec;
- Pinawa, Manitoba; and
- Campbellsville, Kentucky.

3 Summary of significant accounting policies

The combined financial statements are prepared in accordance with Canadian accounting standards for not-for-profit organizations (ASNPO) in Part III of the Chartered Professional Accountants of Canada Handbook and include the following significant policies.

Tim Horton Children's Foundation, Inc.

Notes to Combined Financial Statements

October 31, 2016 and October 31, 2015

(in thousands of Canadian dollars)

Revenue receipts recognition

The Foundation follows the restricted fund method of accounting for revenue receipts (receipts). Receipts consist of donations, special events revenue and fees for services. Receipts are recorded as received or when the amount to be received can be reasonably estimated and collection is reasonably assured. Unrestricted receipts are recognized as revenue in the unrestricted fund. Donor restricted receipts for specific purposes are recognized as revenue in the externally restricted fund.

From time to time through the normal course of operations, the Foundation accepts pledges related to future donations. Pledged donations recorded in these combined financial statements and to be received in future periods are included under accounts and pledged donations receivable. The maximum credit risk with these pledged donations is the fair value of the pledged donations receivable. The value of pledged donations receivable as at year-end was \$69 (2015 - \$nil).

The Foundation has historically received substantially all of its donations from the following groups:

- Tim Hortons' restaurant owners;
- RBI, its employees and their suppliers;
- directors of the Foundation; and
- the general public through coin boxes located inside Tim Hortons restaurants.

Fund accounting

The Foundation ensures as part of its fiduciary responsibilities that all funds received with a restricted purpose are expended for the purposes for which they were provided.

For financial reporting purposes, the accounts have been classified into the following funds:

- Unrestricted Fund

The Unrestricted Fund accounts for the Foundation's general fundraising, operating and administrative activities. The Unrestricted Fund reports unrestricted resources available for immediate purposes.

- Externally Restricted Fund

The Externally Restricted Fund consists of amounts that have been received that have been restricted as specified by the donor for purposes such as capital and education. Expenses are recorded in the fund when these restricted amounts have been spent on eligible expenses.

Cash

The Foundation's policy is to present bank balances under cash.

Tim Horton Children's Foundation, Inc.

Notes to Combined Financial Statements

October 31, 2016 and October 31, 2015

(in thousands of Canadian dollars)

Property and equipment

Property and equipment purchased are recorded at cost. Donations of property and equipment are recorded at estimated fair value when that value can be reasonably determined. Amortization of property and equipment is calculated over their estimated useful lives using the declining balance method at the following annual rates:

Buildings	5%
Equipment and furnishings	20%
Paving	8%
Marine vehicles and equipment	15%
Vehicles	30%
Computers	30%
Livestock	25%

The Foundation reviews the carrying amounts of its long-lived assets regularly. If the long-lived assets no longer have any long-term service potential to the Foundation, the excess of the net carrying amount over any residual value is recognized as an expense in the combined statement of operations.

Computer software

Computer software is recorded at cost and is amortized at an annual rate of 33% using the declining balance method. If software no longer has any long-term service potential to the Foundation, the excess of its net carrying amount over any residual value is recognized as an expense in the combined statement of operations.

Foreign currencies

Revenue and expense items are translated into Canadian dollars at the rate in effect at the time the transaction occurred. Monetary assets and liabilities are translated into Canadian dollars at the rate in effect at the combined statement of financial position date. Effective November 1, 2003, which is the date the US Foundation and joint venture were not self-sustaining, exchange gains and losses arising from translation were recognized on the combined statement of operations, as the US Foundation and the joint venture are determined to be of an integrated nature and the functional currency was determined to be the Canadian dollar. In the current year, foreign exchange gains were \$44 (2015 - \$86).

Contributed materials and services

The Foundation benefits from various donated materials and services, including public service announcements and food products. Amounts for these materials and services have been included in the combined statement of operations when the fair value can be reasonably estimated and the Foundation would have otherwise purchased the contributed materials and services for its activities. The amounts included in the combined statement of operations represent the fair value of the contributed materials at the date of donation. In fiscal 2016, the total amount of contributed materials and services recorded in the combined financial statements was \$661 (2015 - \$892).

Tim Horton Children's Foundation, Inc.

Notes to Combined Financial Statements

October 31, 2016 and October 31, 2015

(in thousands of Canadian dollars)

Use of estimates

The preparation of these combined financial statements requires management to make estimates and assumptions that affect receipts and expenses during the reporting period, in addition to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the combined financial statements. Actual results could differ from those estimates.

Externally restricted fund

During the year, the Foundation received \$296 (2015 - \$nil) in proceeds from a black tie fundraising event for the purpose of funding the Carolee House Leadership Bursary Program (formerly the Tim Horton Youth Leadership Bursary Award Program). An additional \$16 (2015 - \$nil) in proceeds was received from a concert held in support of the Carolee House Leadership Bursary Program. The Foundation received a total of \$35 (2015 - \$50) in additional donations toward the program during the current fiscal year. The program paid out bursaries totalling \$196 (2015 - \$50) and fundraising expenditures of \$151 (2015 - \$nil) relating to the black tie fundraising event from the externally restricted fund.

In 2010, the Foundation received a donation of \$348 to be used for nature and conservation programs at its camp in St. George, Ontario. A total of \$23 (2015 - \$23) was used during the year to fund these programs.

In fiscal 2012, the Foundation launched a campaign to raise funds for the purpose of increasing its capacity in order to provide services to a greater number of children. This increased capacity is to be achieved through the expansion of existing facilities or construction of a new camp. During the year, \$1,249 (2015 - \$1,677) was received in contributions toward the Mission 10 Million Campaign, and \$nil (2015 - \$1,677) was used to fund costs associated with construction of a new camp in Manitoba. A total of \$1,249 (2015 - \$nil) was used in the current year to retire debt incurred to complete construction of the camp.

During the year, the Foundation received donations totalling \$nil (2015 - \$130) to be used for the construction of an indoor arena at the camp in Kananaskis, Alberta. Construction of the indoor riding arena was completed in 2015 and a total of \$nil (2015 - \$289) was used in the current year to fund costs associated with construction. As at year-end, the balance of the fund was \$nil (2015 - \$nil).

In 2015, the Foundation received \$98 in net proceeds from a golf tournament held for the purpose of funding a bursary program for US resident campers. The program paid out bursaries totalling \$nil (2015 - \$22) during the year. As at year-end, the balance of the fund was \$nil (2015 - \$nil).

Financial assets and liabilities

The Foundation initially measures its financial assets and liabilities at fair value. The Foundation subsequently measures all its financial assets and liabilities at amortized cost. Changes in fair value are recognized in the combined statement of operations.

Financial assets measured at amortized cost include cash, accounts and pledged donations receivable, sales tax recoverable and other current assets.

Tim Horton Children's Foundation, Inc.

Notes to Combined Financial Statements

October 31, 2016 and October 31, 2015

(in thousands of Canadian dollars)

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities, the bank loan payable and the automobile lease payable.

Transaction costs are capitalized and amortized on a straight-line basis over the useful lives of the related financial assets and liabilities.

The main risks to which the Foundation's financial assets and liabilities are exposed are credit risk and foreign currency risk. It is management's opinion that the Foundation is not exposed to significant interest rate risk, market risk and cash flow risk.

- Credit risk

The Foundation grants credit in the normal course of business and is exposed to credit risk on its accounts receivable. Credit evaluations are performed on a regular basis, and the combined financial statements take into account an allowance for bad debts. The maximum credit risk is the fair value of the accounts receivable balance.

- Foreign currency risk

Foreign currency risk is the risk future cash flows arising from amounts receivable and/or payable in a foreign currency will fluctuate because of changes in foreign exchange rates. As at year-end, the Foundation had cash of \$2,156 (2015 - \$1,620) denominated in US dollars.

Inter-organization transactions

All inter-organization transactions and balances between the Foundation, the US Foundation and the joint venture are eliminated on combination of the financial statements.

4 Related party transactions

During the year, the Foundation engaged in transactions with other RBI affiliated entities.

RBI is a related party to the Foundation as it has the ability to significantly influence the strategic and operational policies and activities of the Foundation. From time to time, RBI will provide support to the Foundation through contributions and services. These amounts are recorded in line with the Foundation's policy.

The TDL Group of Companies, Tim Hortons Advertising and Promotion Fund (Canada) Inc., and Tim Hortons USA Inc., are all controlled by RBI and therefore related to the Foundation through common significant influence.

Tim Horton Children's Foundation, Inc.

Notes to Combined Financial Statements

October 31, 2016 and October 31, 2015

(in thousands of Canadian dollars)

During the year, the Foundation recorded the following transactions with RBI and other related parties:

	2016 \$	2015 \$
Donations received through The TDL Group of Companies (TDL)	1,375	1,400
Donations received through Tim Hortons Advertising and Promotion Fund (Canada) Inc.	2,222	2,535
Donations received through Tim Hortons USA Inc.	12	-
Donations received through RBI	15	-
Services provided	2	5
Purchases of food and beverage and supplies	(63)	(80)
Management fees	(28)	(219)
Donated stocks from directors - subsequently sold	-	226
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	3,535	3,867

Purchases are included in the food and beverage and supplies expenses and the management fees are included in administration expenses.

During the year, the Foundation had the following balances with RBI and other related parties:

	2016 \$	2015 \$
Payable to TDL	(1)	(86)
Receivable from Tim Hortons Advertising and Promotion Fund (Canada) Inc.	-	24
Payable to Tim Hortons Advertising and Promotion Fund (Canada) Inc.	(254)	-
Receivable from Tim Hortons USA Inc.	8	-
Receivable from RBI	15	-
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	(232)	(62)

These values correspond to the consideration agreed on by the parties. Receivables and payables are non-interest bearing and due on demand.

All related party transactions were carried out in the normal course of operations and are recorded at the exchange value, which is the amount of consideration established and agreed to by the related parties.

Tim Horton Children's Foundation, Inc.

Notes to Combined Financial Statements

October 31, 2016 and October 31, 2015

(in thousands of Canadian dollars)

5 Property and equipment

			2016	2015
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Land	3,587	-	3,587	3,587
Buildings	68,166	25,561	42,605	43,381
Construction-in-progress	25	-	25	472
Equipment and furnishings	15,793	11,731	4,062	4,068
Paving	2,248	1,044	1,204	1,308
Marine vehicles and equipment	1,251	831	420	386
Vehicles	1,682	1,376	306	425
Computers	1,565	1,294	271	304
Computer software	318	49	269	52
Livestock	157	115	42	51
	94,792	42,001	52,791	54,034

In the current year, contributed property and equipment was \$39 (2015 - \$211), which consisted of kitchen equipment and livestock.

6 Loan facilities

The Foundation has available an operating credit facility aggregating to approximately \$500 to provide funding for general operating requirements of the Foundation. The interest rate on the operating facility is the bank's prime lending rate plus 1%.

The Foundation has available an operating credit facility aggregating to approximately \$4,500 during non-peak periods to provide funding for general operating requirements of the Foundation during peak periods (\$500 during non-peak periods). The interest rate on the operating facility is the bank's prime lending rate plus 1%.

The Foundation has \$2,000 purchase card availability during peak periods (\$500 during non-peak periods) for general corporate and working capital purposes.

As at year-end, these facilities have not been drawn.

7 Long-term debt

The Foundation has a non-revolving credit facility of \$4,000 to provide funding for the construction of the Tim Horton Camp Whiteshell in Pinawa, Manitoba. As at October 31, 2016, \$2,000 (2015 - \$4,000) was drawn.

Tim Horton Children's Foundation, Inc.

Notes to Combined Financial Statements

October 31, 2016 and October 31, 2015

(in thousands of Canadian dollars)

The loan is secured by a general security agreement and bears interest at the bank's prime lending rate plus 1%. Interest is payable monthly and the principal is repayable in equal quarterly instalments of \$500 commencing January 31, 2016. The scheduled repayment is as follows:

	\$
2017	2,000

Interest expenses for the year (included in net interest expenses) amounted to \$122 (2015 - \$51).

8 Sources of contributions

Contributions received by the Foundation during the year are from the following sources:

	2016 \$	2015 \$
Camp day donations	13,071	12,744
Coin program donations	7,074	7,353
Donations from RBI	3,624	3,935
Corporate donation	2,526	4,258
Individual donations	1,733	1,306
Special events	1,684	1,500
Fees for services and other donations	417	477
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	30,129	31,573

9 Private donations

Private donations are eligible for charitable tax credits for donors to the Foundation. The Foundation's Canadian federal charitable registration number is 111926 4885 RR0001.

Private donations are eligible for charitable tax credits for donors to the US Foundation. The US Foundation's identification number is 31-1681446.

10 Commitments

The Foundation has no operating lease commitments.

The Foundation has \$8 (2015 - \$24) of automobiles under a capital lease at an annual interest rate of 4.8% (2015 - 4.8%). The lease will expire on April 30, 2017. Interest expenses for the year were \$1 (2015 - \$2). Future lease commitments are as follows:

	\$
2017	<hr/> 8

Tim Horton Children's Foundation, Inc.

Notes to Combined Financial Statements

October 31, 2016 and October 31, 2015

(in thousands of Canadian dollars)

On July 1, 1999, the US Foundation entered into a lease agreement with the Commonwealth of Kentucky to lease 50 acres of land located in Green River Lake State Park to expire on August 21, 2026, with two renewal periods totalling 50 years. The lease requires annual rental payments of one dollar (\$1) during its initial term and two renewal terms. The fair value of the operating land lease expenses cannot be reasonably estimated and as such has not been reflected in the combined financial statements.

11 Comparative figures

Certain comparative figures have been reclassified to conform to the current year's combined financial statement presentation.