Tim Horton Children's Foundation, Inc.

Combined Financial Statements
October 31, 2018 and October 31, 2017
(in thousands of Canadian dollars)

May 3, 2019

Independent Auditor's Report

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

We have audited the accompanying combined financial statements of the entities set out in note 2 to the combined financial statements (the Foundation), which comprise the combined statements of financial position as at October 31, 2018 and October 31, 2017 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 such 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 Canadian generally accepted auditing standards and auditing standards generally accepted in the United States of America. Those standards require that we comply with ethical requirements and plan and perform the audits 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.

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.

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Basis for qualified opinion
In common with many not-for-profit organizations, the Foundation derives revenue from donations and special events, 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 (deficiency) of receipts over expenses and cash flows from operations for the years ended October 31, 2018 and October 31, 2017, current assets as at October 31, 2018 and October 31, 2017 and fund balances as at the beginning and the end of the years ended October 31, 2018 and October 31, 2017.

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, 2018 and October 31, 2017 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, 2018 and October 31, 2017

(in thousands of Canadian dollars)

	2018 $	2017 $
Assets		
Current assets		
Cash	2,229	5,466
Accounts and pledged donations receivable (note 3)	669	801
Sales tax recoverable	100	89
Prepaid expenses	276	408
	3,274	6,764
Capital assets (note 6)	48,767	51,106
Investments	103	106
	52,144	57,976
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 8)	1,427	1,254
Due to Restaurant Brands International (note 5)	355	459
	1,782	1,713
Fund Balances (note 3)		
Invested in Capital Assets Fund	48,767	51,106
Externally Restricted Fund	135	57
Endowment Fund (note 4)	101	100
Unrestricted Fund	1,359	5,000
	50,362	56,263
	52,144	57,976

Commitments (note 11)

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, 2018 and October 31, 2017

(in thousands of Canadian dollars)

	2018				2017			
	Unrestricted Fund $	**Externally Restricted Fund $**	**Endowment Fund $**	**Total $**	**Unrestricted Fund $**	**Externally Restricted Fund $**	**Endowment Fund $**	**Total $**
Receipts (notes 4, 5, 9 and 10)	28,885	184	1	29,070	30,388	428	100	30,916
Camp operating expenses								
Wages and benefits	10,886	23	-	10,909	9,404	23	-	9,427
Food and beverage (note 5)	2,070	-	-	2,070	1,838		-	1,838
Site maintenance	1,359	-	-	1,359	1,334	-	-	1,334
Carolee House Leadership Bursaries	1,282	-	-	1,282	1,129	10	-	1,139
Sports and program	1,109	-	-	1,109	921	-	-	921
Supplies (note 5)	1,105	-	-	1,105	971	-	-	971
Utilities	919	-	-	919	807	-	-	807
Insurance	643	-	-	643	625	-	-	625
Commemorative gifts	534	-	-	534	405	-	-	405
Travel	284	-	-	284	194	-	-	194
Property taxes	119	-	-	119	119	-	-	119
Camper registration	109	-	-	109	106	-	-	106
Consulting fees	52	-	-	52	263	-	-	263
New camp development	-	-	-	-	8	-	-	8
	20,471	23	-	20,494	18,124	33	-	18,157
Transportation expenses	4,933	-	-	4,933	4,689	-	-	4,689
Fundraising expenses	4,161	-	-	4,161	3,163	-	-	3,163
Administration expenses	2,058	-	-	2,058	2,031	-	-	2,031
Interest expenses (income) – net	(45)	-	-	(45)	8	-	-	8
Amortization expenses	3,370	-	-	3,370	3,471	-	-	3,471
	34,948	23	-	34,971	31,486	33	-	31,519
(Deficiency) excess of receipts over expenses for the year	(6,063)	161	1	(5,901)	(1,098)	395	100	(603)

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, 2018 and October 31, 2017

(in thousands of Canadian dollars)

	Externally Restricted Fund $	Endowment Fund $	Invested in Capital Assets Fund $	Unrestricted Fund $	Total $
Fund Balances – November 1, 2016	80	-	52,791	3,995	56,866
Purchase of capital assets	-	-	1,849	(1,849)	-
Disposal of capital assets	-	-	(63)	63	-
Amortization of capital assets	-	-	(3,471)	3,471	-
Repayment of bank loan payable for construction of camp in Pinawa, Manitoba	(418)	-	-	418	-
(Deficiency) excess of receipts over expenses for the year	395	100	-	(1,098)	(603)
Fund Balances – October 31, 2017	57	100	51,106	5,000	56,263
Purchase of capital assets	(83)	-	1,099	(1,016)	-
Disposal of capital assets	-	-	(68)	68	-
Amortization of capital assets	-	-	(3,370)	3,370	-
(Deficiency) excess of receipts over expenses for the year	161	1	-	(6,063)	(5,901)
Fund Balances – October 31, 2018	135	101	48,767	1,359	50,362

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, 2018 and October 31, 2017

(in thousands of Canadian dollars)

	2018 $	2017 $
Cash provided by (used in)		
Operating activities		
Deficiency of receipts over expenses for the year	(5,901)	(603)
Amortization expenses	3,370	3,471
Donated capital assets	(12)	(21)
Loss (gain) on disposal of capital assets	48	(50)
	(2,495)	2,797
Changes in non-cash working capital balances		
Accounts and pledged donations receivable	132	(398)
Sales tax recoverable	(11)	80
Prepaid expenses	132	(211)
Accounts payable and accrued liabilities	173	(118)
Due to Restaurant Brands International	(104)	227
	(2,173)	2,377
Financing activities		
Repayment of automobile lease	-	(8)
Repayment of bank loan	-	(2,000)
	-	(2,008)
Investing activities		
Purchase of investments	(79)	(106)
Proceeds from sale of investments	82	-
Purchase of capital assets	(1,087)	(1,828)
Proceeds from sale of capital assets	20	113
	(1,064)	(1,821)
Decrease in cash during the year	3,237	(1,452)
Cash – Beginning of year	5,466	6,918
Cash – End of year	2,229	5,466

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

(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 and 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 Tim Horton's restaurant owners.

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.

(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. All contributions are generally considered unrestricted contributions to the Foundation unless a donor specifies otherwise and would be reflected as revenue of the Unrestricted Fund. If a donor specifies the contribution is for an existing endowed fund or specifies it is to be retained permanently, it is recognized as revenue of an endowment fund.

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.

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 $228 (2017 – $202).

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.

- Invested in Capital Assets Fund

  The Invested in Capital Assets Fund includes funds that have been used for the purpose of purchasing capital assets net of accumulated amortization and financial costs.

(in thousands of Canadian dollars)

- 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. Expenditures are recorded in the fund when these restricted amounts have been spent on eligible expenditures.

- Endowment Fund

  The Endowment Fund consists of contributions received where donors have restricted the original contribution to be maintained in perpetuity. Where revenue earned on the endowed funds has been restricted for a specific purpose, related revenue and eligible expenses are recorded in the Externally Restricted Fund. Where revenue earned on the endowed funds has not been restricted, related revenue and expenditures will be recorded in the Unrestricted Fund. Changes in fair value of the endowed funds, which have not been restricted, will be recorded in the Unrestricted Fund.

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 (2017 – $23) was used during the year to fund these programs.

In fiscal 2012, the Foundation launched the Mission 10 Million 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 was to be achieved through the expansion of existing facilities or construction of a new camp in Manitoba. During the year, $184 (2017 – $418) was received in contributions toward the Mission 10 Million Campaign, and $83 (2017 – $nil) was used to fund costs associated with capital costs for the camp in Manitoba. A total of $nil (2017 – $418) was used in the current year to retire debt incurred to complete construction of the camp.

Cash

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

Tangible assets

Tangible assets purchased are recorded at cost. Donations of tangible assets are recorded at estimated fair value when that value can be reasonably determined. Amortization of tangible assets 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%

(in thousands of Canadian dollars)

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 statements of operations.

Intangible assets

The intangible assets are recorded at cost and are amortized at an annual rate of 33% using the declining balance method. If the intangible assets no longer have any long-term service potential to the Foundation, the excess of their net carrying amount over any residual value is recognized as an expense in the combined statements 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 statements of financial position dates. Exchange gains and losses arising from translation were recognized in the combined statements 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 (losses) were $7 (2017 – $(124)).

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 statements 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 statements of operations represent the fair value of the contributed materials at the date of donation. In fiscal 2018, the total amount of contributed materials and services recorded in the combined financial statements was $1,389 (2017 – $962). These amounts have been included in corporate $1,194 (2017 – $863), individual $4 (2017 – $16), and special event donations $191 (2017 – $83).

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 dates of the combined financial statements. Actual results could differ from those estimates.

Financial assets and liabilities

The Foundation initially measures its financial assets and financial liabilities at fair value.

Equity instruments that are quoted in an active market are subsequently measured at fair value. Changes in fair value are recognized in the combined statements of operations. All other financial assets are subsequently recorded at amortized cost, including cash, accounts and pledged donations receivable, sales tax recoverable and investments.

(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 incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction and financing costs incurred on acquisition, which are amortized on a straight-line basis.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. When events occurring after the impairment confirm a reversal is necessary, the reversal is recognized in the excess of revenue over expenditures for the year up to the amount of the previously recognized impairment.

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 $1,158 (2017 – $1,751) denominated in US dollars.

The Foundation is subject to market risk and interest rate risk with respect to its investment portfolio. To manage these risks, the Foundation has a comprehensive investment policy and has established a target mix of investment types designed to achieve the optimal return with reasonable risk tolerances.

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 Endowment Fund

During the year, the Foundation received endowments of $1 (2017 – $100), which are required to be maintained by the entity on a permanent basis. The funds were invested in debt and equity securities where $(3) (2017 – $6) of unrestricted investment (loss) income was earned. As at year-end, the net investment balance related to the Endowment Fund is $103 (2017 – $106).

(in thousands of Canadian dollars)

5 Related party transactions

During the year, the Foundation engaged in transactions with Tim Hortons' restaurant owners (restaurant owners), who are franchisees under RBI. Restaurant owners are a related party to the Foundation as they have the ability to significantly influence the strategic and operational policies and activities of the Foundation through their representation on the Board. This relationship has been extended to the franchisor, RBI, and its related entities, who support the Foundation through brand recognition. RBI's related entities include all entities under the RBI Group because they are all under the common control of RBI.

During the year, the Foundation received $8,933 (2017 – $8,713) in donations from restaurant owners. Restaurant owners also collected donations of $10,805 (2017 – $11,726) on behalf of the Foundation, which were forwarded to the Foundation during the fiscal year.

During the year, the Foundation recorded the following transactions with RBI and its related entities:

	2018 **$**	**2017** **$**
RBI donations		
The TDL Group Corporation	1,375	1,375
Tim Hortons Advertising and Promotion Fund (Canada) Inc.	2,203	2,205
RBI	-	86
RBI services		
Fee for service activity	53	7
Purchase of food and beverage and supplies	(679)	(70)
	2,952	3,603

These amounts have been recorded in line with the Foundation's revenue and expenditure policies. Purchase of food and beverage and supplies is included under camp operating expenses in the combined financial statements.

As at October 31, 2018, the Foundation had the following balances outstanding with RBI and other related parties:

	2018 **$**	**2017** **$**
Payable to TDL	(2)	(4)
Receivable from Tim Hortons Advertising and Promotion Fund (Canada) Inc.	1	-
Payable to Tim Hortons Advertising and Promotion Fund (Canada) Inc.	(431)	(596)
Payable to Tim Hortons USA Inc.	(4)	-
Receivable from RBI	81	141
	(355)	(459)

Receivables and payables are non-interest bearing and due on demand.

(in thousands of Canadian dollars)

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.

6 Capital assets

			2018
	Cost $	**Accumulated amortization $**	**Net $**
Tangible assets			
Land	3,595	-	3,595
Buildings	68,727	29,715	39,012
Construction-in-progress	225	-	225
Equipment and furnishings	16,915	13,335	3,580
Paving	2,248	1,229	1,019
Marine vehicles and equipment	1,505	975	530
Vehicles	1,659	1,443	216
Computers	1,731	1,454	277
Livestock	154	123	31
Intangible assets			
Computer software	530	248	282
	97,289	48,522	48,767

			2017
	Cost $	**Accumulated amortization $**	**Net $**
Tangible assets			
Land	3,595	-	3,595
Buildings	68,596	27,666	40,930
Construction-in-progress	276	-	276
Equipment and furnishings	16,494	12,533	3,961
Paving	2,248	1,140	1,108
Marine vehicles and equipment	1,456	901	555
Vehicles	1,664	1,432	232
Computers	1,595	1,363	232
Livestock	158	121	37
Intangible assets			
Computer software	318	138	180
	96,400	45,294	51,106

In the current year, contributed capital assets amounted to $12 (2017 – $21), which consisted of building materials and livestock.

(in thousands of Canadian dollars)

7 Loan facilities

As at October 31, 2018, the Foundation has existing loan facilities as follows:

- 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%;
- An operating credit facility aggregating to approximately $4,500 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%; and
- $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 upon.

On December 4, 2018, the Foundation renegotiated the terms of the loan facilities as follows:

- An operating credit facility of $2,000 to provide funding for general operating requirements of the Foundation and/or standby letters of credit/letters of guarantee up to $50 at any one time; the interest rate on the facility is the bank's prime lending rate plus 1%;
- An operating facility available from March 1 through to and including August 31 annually to provide funding up to $2,500. The interest rate on the facility is the bank's prime lending rate plus 1%; and
- $1,500 and $500 US dollar purchase card availability for general corporate and working capital purposes.

8 Government remittances payable

Government remittances payable consist of amounts (such as payroll withholding taxes) required to be paid to government authorities. As at October 31, 2018, government remittances payable to the federal and provincial governments included in accounts payable and accrued liabilities amounted to $1 (2017 – $1).

(in thousands of Canadian dollars)

9 Sources of contributions

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

	2018 $	2017 $
Camp day donations	13,170	13,658
Coin program donations	5,748	6,803
Donations from RBI	3,578	3,673
Corporate donations	3,285	3,216
Individual donations	1,552	1,436
Special events	1,435	1,814
Fees for services and other donations	302	316
	29,070	30,916

10 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.

11 Commitments

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.

12 Comparative figures

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