Tim Horton Children's Foundation, Inc.

Combined Financial Statements
October 31, 2014
(in thousands of Canadian dollars)

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March 11, 2015

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 statement of financial position as at October 31, 2014 and the combined statements of operations, changes in net assets and cash flows for the year 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 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 audit. We conducted our audit 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 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 service, 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, 2014 and October 31, 2013, current assets as at October 31, 2014 and October 31, 2013 and net assets as at November 1, 2013 and 2012 and October 31, 2014 and October 31, 2013. Our audit opinion on the combined financial statements for the year ended October 31, 2013 was modified accordingly because of the possible effects of this limitation in scope.

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, 2014 and the results of its operations and its cash flows for the year 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 Statement of Financial Position

As at October 31, 2014

(in thousands of Canadian dollars)

	2014 $	2013 $
Assets		
Current assets		
Cash	6,934	10,598
Accounts and pledged donations receivable	731	599
Sales tax recoverable	219	273
Other current assets	223	91
Due from The TDL Group of Companies (note 4)	94	-
	8,201	11,561
Property and equipment (note 5)	47,911	40,023
	56,112	51,584
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 7)	3,947	2,543
Automobile lease payable (note 12)	15	14
Due to The TDL Group of Companies (note 4)	-	70
	3,962	2,627
Automobile lease payable (note 12)	24	-
	3,986	2,627
Net Assets		
Invested in capital assets	47,911	40,023
Externally restricted assets	307	849
Unrestricted assets	4,034	8,211
Foreign currency translation (note 3)	(126)	(126)
	52,126	48,957
	56,112	51,584

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 Statement of Operations

For the year ended October 31, 2014

(in thousands of Canadian dollars)

	2014					2013
	Unrestricted funds $	Restricted funds $	Total actual $	Budget $ (note 11)	Variance to budget $	Total actual $
Receipts (notes 3 and 8)	27,334	2,284	29,618	30,094	(476)	29,520
Camp operating expenses						
Wages and benefits	8,599	23	8,622	8,764	142	8,244
Site maintenance	1,483	-	1,483	1,290	(193)	1,536
Food and beverage	1,513	-	1,513	1,607	94	1,530
Insurance	581	-	581	574	(7)	597
Property taxes	123	-	123	118	(5)	115
Sports and program	444	-	444	482	38	499
Commemorative gifts	425	-	425	445	20	450
Carolee House bursaries	411	343	754	783	29	512
Supplies	643	-	643	549	(94)	594
Utilities	813	-	813	733	(80)	685
Camper registration	197	-	197	198	1	196
Travel	248	-	248	218	(30)	183
Consulting fees	1	-	1	5	4	1
New camp development	22	-	22	20	(2)	51
Total camp operating expenses	15,503	366	15,869	15,786	(83)	15,193
Transportation costs	3,245	-	3,245	3,197	(48)	3,041
Fundraising expenses (note 9)	2,570	222	2,792	2,667	(125)	2,781
Administration	2,072	-	2,072	2,097	25	2,091
Interest income - net	(84)	-	(84)	(8)	76	(48)
Amortization expense	2,555	-	2,555	2,606	51	2,695
Total expenses	25,861	588	26,449	26,345	(104)	25,753
Excess of receipts over expenses for the year	1,473	1,696	3,169	3,749	(580)	3,767

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

Tim Horton Children's Foundation, Inc.

Combined Statement of Changes in Net Assets

For the year ended October 31, 2014

(in thousands of Canadian dollars)

					2014	2013
	Externally restricted assets $	Invested in capital assets $	Unrestricted assets $	Foreign currency translation $	Total net assets $	Total net assets $
Net assets - Beginning of year	849	40,023	8,211	(126)	48,957	45,190
Purchase of property and equipment	(2,238)	10,550	(8,312)	-	-	-
Sale (disposal) of property and equipment	-	(107)	107	-	-	-
Amortization of property and equipment	-	(2,555)	2,555	-	-	-
Interfund transfers	-	-	-	-	-	-
Excess of receipts over expenses for the year	1,696	-	1,473	-	3,169	3,767
Net assets - End of year	307	47,911	4,034	(126)	52,126	48,957

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

Tim Horton Children's Foundation, Inc.

Combined Statement of Cash Flows

For the year ended October 31, 2014

(in thousands of Canadian dollars)

	2014 $	2013 $
Cash provided by (used in)		
Operating activities		
Excess of receipts over expenses for the year	3,169	3,767
Amortization expense	2,555	2,695
	5,724	6,462
Changes in non-cash working capital balances		
Accounts and pledged donations receivable	(132)	(275)
Sales tax recoverable	54	7
Other current assets	(132)	20
Accounts payable and accrued liabilities	1,404	1,114
	6,918	7,328
Financing activities		
Increase (decrease) in due to The TDL Group of Companies	(164)	78
Repayment of automobile leases	25	(6)
	(139)	72
Investing activities		
Purchase of property and equipment	(10,532)	(3,022)
Proceeds from sale of property and equipment	102	56
Loss on disposal of property and equipment	6	18
Donated property and equipment	(19)	(19)
	(10,443)	(2,967)
Increase (decrease) in cash during the year	(3,664)	4,433
Cash - Beginning of year	10,598	6,165
Cash - End of year	6,934	10,598

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

(in thousands of Canadian dollars)

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

The 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).

The Tim Horton Children's Foundation (US), Inc. (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.

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 Tim Horton Children's Foundation Joint Venture (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 The TDL Group of Companies (TDL), directors of the Foundation and external directors.

The Foundation and the US Foundation entered into a joint venture agreement on December 15, 2000 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, operates camps for economically disadvantaged children in the following locations:

- Kananaskis, Alberta;
- Parry Sound, Ontario;
- St. George, Ontario;
- Tatamagouche, Nova Scotia;
- Quyon, Quebec; 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 (CPA 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 service. Restricted receipts are recognized as revenue of the appropriate restricted assets fund. Unrestricted receipts are recognized as revenue of the unrestricted assets fund.

Receipts are recorded as received or when their realizable value can be reasonably estimated.

The Foundation has historically received substantially all (in excess of 85%) of its donations from the following groups:

- Tim Hortons' restaurant owners;
- The TDL Group of Companies, its employees and their suppliers;
- directors of the Foundation; and
- the general public through coin boxes located inside Tim Horton's 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 at year-end was $131 (2013 - $35).

Cash

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

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.

(in thousands of Canadian dollars)

Software

Software is recorded at cost and is amortized at an annual rate of 33% declining balance. 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 are 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 to be the Canadian dollar. In the current year, foreign exchange gains (losses) were $43 (2013 - $6).

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 2014, the total amount of contributed materials recorded in the combined financial statements was $789 (2013 - $1,066).

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.

Restricted assets

During the year, the Foundation received $142 (2013 - $128) in net proceeds from a black tie fundraising event held for the purpose of funding the Carolee House Leadership Bursary Program (formerly the Tim Horton Youth Leadership Bursary Award Program). The Foundation also received a total of $125 in additional donations toward the program during the fiscal year. The program paid out bursaries totalling $266 (2013 - $128) from restricted assets.

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 (2013 - $15) 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 capacity in order to provide services to a greater number of children. This increased capacity is to be achieved through

(in thousands of Canadian dollars)

expansion of existing facilities or construction of a new camp. During the year, $1,578 (2013 - $1,461) was received in contributions toward the Mission 10 Million Campaign, and $2,238 (2013 - $1,759) was used to fund costs associated with construction of a new camp in Manitoba.

During fiscal 2014, the Foundation received donations totalling $119 (2013 - $40) to be used for the construction of an indoor arena at the camp in Kananaskis, Alberta. Additional funds are expected to be received over the next few years and the project will begin once sufficient funds have been accumulated.

During the year, the Foundation received $98 (2013 - $nil) 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 $77 (2013 - $nil) during the year.

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.

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

Transaction costs are capitalized and amortized on a straight-line basis over the useful life 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. At year-end, the Foundation had cash of $760 (2013 - $725) denominated in US dollars.

(in thousands of Canadian 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 Tim Horton affiliated entities.

Tim Horton Inc. (THI) 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, THI will provide support to the Foundation through contributions and services. These amounts are recorded in line with the Foundation's policy.

In the current year, the Foundation received donations of $1,376 (2013 - $1,263) from THI through TDL, received $47 (2013 - $26) for services provided, had purchases of $82 (2013 - $69) and paid a fee for management services of $315 (2013 - $316) provided through the normal course of operations. The Foundation also received donations of $1,230 (2013 - $1,369) from THI through the Tim Horton's Advertising and Promotion Fund (Canada) Inc. (the Ad Fund), and paid a fee for management services of $130 (2013 - $154) provided through the normal course of operations. The Foundation also received donations of $5 (2013 - $5) from THI through Tim Hortons USA Inc. and $10 (2013 - $10) from THF through Fruition Manufacturing Limited.

The Foundation had outstanding receivables of $120 (2013 - $nil) and payables of $nil (2013 - $23) with TDL, payables of $28 (2013 - $47) with the Ad Fund, and receivables of $2 (2013 - $nil) with Tim Hortons USA Inc. These receivables and payables have been shown on a net basis on the combined statement of financial position.

All related party transactions were carried out in the normal course of operations and are recorded at the exchange value. This value corresponds to the consideration agreed on by the parties. Receivables and payables are non-interest bearing and due on demand.

(in thousands of Canadian dollars)

5 Property and equipment

			2014	2013
	Cost $	Accumulated amortization $	Net $	Net $
Land	3,587	-	3,587	3,437
Buildings	49,962	21,611	28,351	29,557
Construction-in-progress	11,666	-	11,666	2,278
Equipment and furnishings	13,108	10,377	2,731	3,108
Paving	1,231	886	345	375
Marine vehicles and equipment	1,080	789	291	360
Vehicles	1,764	1,234	530	465
Computers	1,506	1,160	346	390
Computer software	18	5	13	12
Livestock	154	103	51	41
	84,076	36,165	47,911	40,023

In the current year, contributed property and equipment was $19 (2013 - $19). The property and equipment consist of livestock for the Kananaskis camp.

6 Loan facility

The Foundation has available an operating credit facility aggregating to approximately $500 to provide funding for general operating requirements of the Foundation as well as a $2,000 purchase card availability for peak periods regarding general corporate and working capital purposes. The interest rate on the operating facility is the bank's prime lending rate. The balance outstanding on the operating facility at year-end was $nil (2013 - $nil). Interest expense for the year (included in net interest expense) amounted to $nil (2013 - $nil).

7 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, 2014, government remittances payable to the federal and provincial governments included in accounts payable and accrued liabilities amounted to $nil (2013 - $15).

(in thousands of Canadian dollars)

8 Sources of contributions

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

	2014 $	2013 $
Camp day	12,192	11,552
Coin program	7,279	7,422
THI Group of Companies	1,917	1,966
Mission 10 Million Campaign	1,578	1,461
Supplier donations	2,109	2,193
Special events	2,789	2,882
Fee for service and other donations	1,754	2,044
	29,618	29,520

9 Fundraising expenses

Fundraising expenses consist of costs to support the fundraising activities of the Foundation. Included in these costs are expenses associated with special events run by the Foundation, the coin donation program and other fundraising support activities. The following amounts were incurred by the Foundation.

	2014 $	2013 $
Special event expenses	1,799	1,656
Coin donation program expenses	863	1,073
Other support activities	130	52
	2,792	2,781

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 Budgeted figures

The combined budgeted figures are presented in the combined statement of operations for the Foundation, are unaudited and have been approved by the Foundation's board of directors.

(in thousands of Canadian dollars)

12 Commitments

The Foundation has no operating lease commitments.

The Foundation has $39 (2013 - $14) of automobiles acquired under a capital lease at an annual interest rate of 4.8% (2013 - 7.5%). The lease expired on September 30, 2014. Interest expense for the year was $1 (2013 - $1). Financing fees for the year were $nil (2013 - $nil). Future lease commitments are as follows:

	$
2015	16
2016	16
2017	8

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 and two renewal terms. The fair value of the operating land lease expense cannot be reasonably estimated and as such has not been reflected in the combined financial statements.