Tim Horton Children's Foundation, Inc.

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

March 7, 2016

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, 2015 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.

We believe that the audit evidence we have obtained 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 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, 2015 and October 31, 2014, current assets as at October 31, 2015 and October 31, 2014 and net assets as of November 1, 2014 and 2013 and October 31, 2015 and October 31, 2014. Our audit opinion on the combined financial statements for the year ended October 31, 2014 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, 2015 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, 2015

(in thousands of Canadian dollars)

	2015 $	2014 $
Assets		
Current assets		
Cash	6,073	6,934
Accounts and pledged donations receivable	510	731
Sales tax recoverable	279	219
Other current assets	212	223
Due from The TDL Group of Companies (note 4)	-	94
	7,074	8,201
Property and equipment (note 5)	54,034	47,911
	61,108	56,112
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,973	3,947
Current portion of bank loan payable (note 7)	2,000	-
Automobile lease payable (note 10)	24	15
Due to The TDL Group of Companies (note 4)	62	-
	4,059	3,962
Automobile lease payable (note 10)	-	24
Bank loan payable (note 7)	2,000	-
	6,059	3,986
Net Assets		
Invested in capital assets	54,034	47,911
Externally restricted assets	103	307
Unrestricted assets	1,038	4,034
Foreign currency translation (note 3)	(126)	(126)
	55,049	52,126
	61,108	56,112

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, 2015

(in thousands of Canadian dollars)

	Unrestricted funds $	Restricted funds $	Total actual $	Budget $ (Unaudited)	Variance to budget $ (Unaudited)	2014 Total actual $
			2015			
Receipts (notes 3, 4 and 8)	29,716	1,857	31,573	31,171	402	29,618
Camp operating expenses						
Wages and benefits	8,829	23	8,852	9,514	662	8,622
Site maintenance	1,456	-	1,456	1,394	(62)	1,483
Food and beverage (note 4)	1,697	-	1,697	1,653	(44)	1,513
Insurance	611	-	611	652	41	581
Property taxes	110	-	110	122	12	123
Sports and program	622	-	622	634	12	444
Commemorative gifts	472	-	472	500	28	425
Carolee House bursaries	806	72	878	751	(127)	754
Supplies (note 4)	987	-	987	815	(172)	643
Utilities	795	-	795	901	106	813
Camper registration	140	-	140	206	66	197
Travel	184	-	184	182	(2)	248
Consulting fees	21	-	21	30	9	1
New camp development	6	-	6	20	14	22
Total camp operating expenses	16,736	95	16,831	17,374	543	15,869
Transportation costs	4,214	-	4,214	3,907	(307)	3,245
Fundraising expenses	2,678	-	2,678	2,777	99	2,792
Administration (note 4)	2,031	-	2,031	2,168	137	2,072
Interest expense (income) - net	17	-	17	140	123	(84)
Amortization expense	2,879	-	2,879	3,079	200	2,555
Total expenses	28,555	95	28,650	29,445	795	26,449
Excess of receipts over expenses for the year	1,161	1,762	2,923	1,726	1,197	3,169

Tim Horton Children's Foundation, Inc.

Combined Statement of Changes in Net Assets

For the year ended October 31, 2015

(in thousands of Canadian dollars)

					2015	2014
	Externally restricted assets $	Invested in capital assets $	Unrestricted assets $	Foreign currency translation $	Total net assets $	Total net assets $
Net assets - Beginning of year	307	47,911	4,034	(126)	52,126	48,957
Purchase of property and equipment	(1,966)	9,058	(7,092)	-	-	-
Sale (disposal) of property and equipment	-	(56)	56	-	-	-
Amortization of property and equipment	-	(2,879)	2,879	-	-	-
Interfund transfers	-	-	-	-	-	-
Excess of receipts over expenses for the year	1,762	-	1,161	-	2,923	3,169
Net assets - End of year	103	54,034	1,038	(126)	55,049	52,126

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, 2015

(in thousands of Canadian dollars)

	2015 $	2014 $
Cash provided by (used in)		
Operating activities		
Excess of receipts over expenses for the year	2,923	3,169
Amortization expense	2,879	2,555
	5,802	5,724
Changes in non-cash working capital balances		
Accounts and pledged donations receivable	221	(132)
Sales tax recoverable	(60)	54
Other current assets	11	(132)
Accounts payable and accrued liabilities	(1,974)	1,404
	4,000	6,918
Financing activities		
Increase (decrease) in due to The TDL Group of Companies	156	(164)
Proceeds from bank loan	4,000	-
Repayment of automobile leases	(15)	25
	4,141	(139)
Investing activities		
Purchase of property and equipment	(8,847)	(10,532)
Proceeds from sale of property and equipment	28	102
Loss on disposal of property and equipment	28	6
Donated property and equipment	(211)	(19)
	(9,002)	(10,443)
Decrease in cash during the year	(861)	(3,664)
Cash - Beginning of year	6,934	10,598
Cash - End of year	6,073	6,934

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. (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.

In December 2000, the Foundation and the US Foundation entered into a joint venture agreement 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 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;
- Pinawa, Manitoba; and
- Campbellsville, Kentucky.

(in thousands of Canadian dollars)

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:

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. Receipts are recorded as received or when their realizable value can be reasonably estimated. Unrestricted receipts are recognized as revenue of the unrestricted assets fund. Donor restricted receipts for specific purposes are recognized as revenue of the appropriate restricted assets fund.

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 $nil (2014 - $131).

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:

a) 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.

b) Restricted Fund

The Restricted Fund consists of amounts restricted for capital and education purposes as specified by the donor.

(in thousands of Canadian dollars)

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.

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 $86 (2014 - $43).

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 2015, the total amount of contributed materials and services recorded in the combined financial statements was $892 (2014 - $789).

(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.

Restricted assets

The Foundation did not hold 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) in the current year. Prior year net proceeds were $142. The Foundation also received a total of $50 in additional donations toward the program during the current fiscal year. The program paid out bursaries totalling $50 (2014 - $266) 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 (2014 - $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 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, $1,677 (2014 - $1,578) was received in contributions toward the Mission 10 Million Campaign, and $1,677 (2014 - $2,238) was used to fund costs associated with construction of a new camp in Manitoba.

During the year, the Foundation received donations totalling $130 (2014 - $119) 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 the year with a total of $289 (2014 - $nil) being used to fund the costs associated with construction.

In 2014, 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 $22 (2014 - $77) 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, bank loan payable and the automobile lease payable.

(in thousands of Canadian dollars)

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. At year-end, the Foundation had cash of $1,620 (2014 - $760) 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 Restaurant Brands International (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.

In the current year, the Foundation received donations of $1,400 (2014 - $1,376) from RBI through TDL, received $5 (2014 - $47) for services provided, had purchases of $80 included in the food and beverage and supplies expenses (2014 - $82) and paid a fee for management services of $219 (2014 - $315) provided through the normal course of operations, which is included in administration expenses. The Foundation also received donations of $2,535 (2014 - $1,230) from RBI through the Tim Horton's Advertising and Promotion Fund (Canada) Inc. (the Ad Fund), and paid a fee for management services of $nil (2014 - $130) provided through the normal course of operations also included in administration expenses. The Foundation also received donations of $nil (2014 - $5) from RBI through Tim Hortons USA Inc. and $nil (2014 - $10) from TDL through Fruition Manufacturing Limited. The Foundation also received $226 (2014 - $nil) in stocks from its directors which were subsequently sold.

(in thousands of Canadian dollars)

The Foundation had outstanding receivables of $nil (2014 - $120) and payables of $86 (2014 - $nil) with TDL, payables of $nil (2014 - $28) and receivables of $24 (2014 - $nil) with the Ad Fund, and receivables of $nil (2014 - $2) 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.

5 Property and equipment

			2015	2014
	Cost $	Accumulated amortization $	Net $	Net $
Land	3,587	-	3,587	3,587
Buildings	66,743	23,362	43,381	28,351
Construction-in-progress	472	-	472	11,666
Equipment and furnishings	14,932	10,864	4,068	2,731
Paving	2,248	940	1,308	345
Marine vehicles and equipment	1,178	792	386	291
Vehicles	1,786	1,361	425	530
Computers	1,499	1,195	304	346
Computer software	75	23	52	13
Livestock	163	112	51	51
	92,683	38,649	54,034	47,911

In the current year, the camp at Pinawa, Manitoba was opened. As a result, $11,620 was transferred from construction-in-progress to buildings. In addition, contributed property and equipment was $211 (2014 - $19), which consisted of computer software and equipment and furnishings.

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 (2014 - $nil). Interest expense for the year (included in net interest expense) amounted to $nil (2014 - $nil).

(in thousands of Canadian dollars)

7 Long-term debt

In the current year, the Foundation obtained a non-revolving credit facility of $4,500 to provide funding for the construction of the Tim Horton Camp Whiteshell in Pinawa, Manitoba, of which $4,000 was drawn as at October 31, 2015.

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 principle is repayable in equal quarterly instalments of $500 commencing on January 31, 2016. Scheduled repayments are as follows:

	$
2016	2,000
2017	2,000

Interest expense for the year (included in net interest expense) amounted to $51 (2014 - $nil).

8 Sources of contributions

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

	2015 $	2014 $
Camp day	12,744	12,192
Coin program	7,353	7,279
RBI Group of Companies	3,077	1,917
Mission 10 Million Campaign	1,677	1,578
Business partner donations	2,622	2,109
Special events	2,214	2,789
Fee for service and other donations	1,886	1,754
	31,573	29,618

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.

(in thousands of Canadian dollars)

10 Commitments

The Foundation has no operating lease commitments.

The Foundation has $24 (2014 - $39) of automobiles acquired under a capital lease at an annual interest rate of 4.8% (2014 - 4.8%). The lease will expire on October 31, 2016. Interest expense for the year was $2 (2014 - $1). Financing fees for the year were $nil (2014 - $nil). Future lease commitments are as follows:

	$
2016	24

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.