

Ronald McDonald House Charities Canada

Financial statements
December 31, 2018



Independent auditor's report

To the Members of
Ronald McDonald House Charities Canada

Opinion

We have audited the accompanying financial statements of **Ronald McDonald House Charities Canada** ["RMHC Canada"], which comprise the statement of financial position as at December 31, 2018 and the statement of operations and changes in fund balances and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of RMHC Canada as at December 31, 2018, and its results of operations and its cash flows for the year then ended.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of RMHC Canada in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the financial statements

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

In preparing the financial statements, management is responsible for assessing the RMHC Canada's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate RMHC Canada or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the RMHC Canada's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:



- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 RMHC Canada's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on RMHC Canada's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause RMHC Canada to cease to continue as a going concern.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Toronto, Canada
June 4, 2019

Ernst + Young LLP

Chartered Professional Accountants
Licensed Public Accountants



Ronald McDonald House Charities Canada

Statement of financial position

As at December 31

	2018	2017
	\$	\$
Assets		
Current		
Cash and cash equivalents	5,893,372	2,911,292
Due from related parties <i>[note 10]</i>	713,745	459,502
Other receivables	388,781	316,243
Cash surrender value of life insurance policies	31,371	29,628
Total current assets	7,027,269	3,716,665
Investments, fair value <i>[note 3]</i>	24,632,011	23,579,536
Donation boxes <i>[note 4]</i>	339,631	769,282
Total assets	31,998,911	28,065,483
Liabilities and fund balances		
Current		
Accounts payable and accrued liabilities <i>[note 5]</i>	1,432,847	331,106
Grants payable <i>[note 6]</i>	1,080,922	460,323
Total current liabilities	2,513,769	791,429
Fund balances		
General fund	29,233,113	26,987,690
Restricted fund	252,029	286,364
Total fund balances	29,485,142	27,274,054
Total Liabilities and fund balances	31,998,911	28,065,483

See accompanying notes

On behalf of the Board:

Director



Director



Ronald McDonald House Charities Canada

Statement of operations and changes in fund balances

Year ended December 31

	<u>General</u>		<u>Restricted</u>		<u>Total</u>	
	2018	2017	2018	2017	2018	2017
	\$	\$	\$	\$	\$	\$
Revenue						
Contributions	10,243,606	8,967,176	—	—	10,243,606	8,967,176
Special events revenue	439,417	383,191	—	—	439,417	383,191
Directed donations	—	—	2,225,751	1,016,860	2,225,751	1,016,860
Other income	—	—	325,000	185,097	325,000	185,097
	10,683,023	9,350,367	2,550,751	1,201,957	13,233,774	10,552,324
Expenses						
Program – grants <i>[note 6]</i>	7,097,595	5,190,916	60,000	120,000	7,157,595	5,310,916
Cost of direct benefits to donors	69,326	40,612	—	—	69,326	40,612
Management and general administration	457,600	431,486	58,402	34,622	516,002	466,108
Fundraising	935,050	1,059,763	222,733	—	1,157,783	1,059,763
Directed donations	—	—	2,243,951	1,010,060	2,243,951	1,010,060
	8,559,571	6,722,777	2,585,086	1,164,682	11,144,657	7,887,459
Change in fund balances from operations	2,123,452	2,627,590	(34,335)	37,275	2,089,117	2,664,865
Investment income, net	121,971	1,499,857	—	—	121,971	1,499,857
Change in fund balances	2,245,423	4,127,447	(34,335)	37,275	2,211,088	4,164,722
Fund balances, beginning of year	26,987,690	22,860,243	286,364	249,089	27,274,054	23,109,332
Fund balances, end of year	29,233,113	26,987,690	252,029	286,364	29,485,142	27,274,054

See accompanying notes

Ronald McDonald House Charities Canada

Statement of cash flows

Year ended December 31

	2018	2017
	\$	\$
Operating activities		
Change in fund balances	2,211,088	4,164,722
Add items not involving cash		
Amortization	454,470	458,135
Net donation box write-off	2,903	2,662
Unrealized loss on investments	782,477	110,268
	<u>3,450,938</u>	<u>4,735,787</u>
Changes in non-cash working capital balances related to operations		
Accounts and other receivables	(326,781)	171,333
Cash surrender value of life insurance policies	(1,743)	(809)
Accounts payable and accrued liabilities	1,101,741	(327,086)
Grants payable	620,599	(312,110)
Cash provided by operating activities	<u>4,844,754</u>	<u>4,267,115</u>
Investing activities		
Contributions to investments	(1,834,952)	(3,719,146)
Acquisition of donation boxes	(27,722)	(5,903)
Cash used in investing activities	<u>(1,862,674)</u>	<u>(3,725,049)</u>
Net increase in cash and cash equivalents during the year	2,982,080	542,066
Cash and cash equivalents, beginning of year	<u>2,911,292</u>	<u>2,369,226</u>
Cash and cash equivalents, end of year	<u>5,893,372</u>	<u>2,911,292</u>

See accompanying notes

Ronald McDonald House Charities Canada

Notes to financial statements

December 31, 2018

1. Purpose of RMHC Canada

Ronald McDonald House Charities Canada ("RMHC Canada") is a not-for-profit charitable corporation incorporated in 1982 under the laws of Ontario as a corporation without share capital, and is registered as a public foundation under the Income Tax Act. As such, RMHC Canada is exempt from income taxes and is able to issue donations receipts for income tax purposes.

RMHC Canada, is a national organization committed primarily to supporting Canadian families with sick children through its support for the Canadian RMHC Chapters and their programs, which work to serve families with critically ill children being treated at a nearby pediatric hospital.

In Canada, 13 regional RMHC Chapters work collaboratively through the support of RMHC Canada, Canada's national RMHC foundation, which is focused on contributing funding from McDonald's Restaurants of Canada and other donors to support the building and operations of the Ronald McDonald Houses, Family Rooms and Ronald McDonald Care Mobiles, to help enable the support of families with sick children.

We fulfil our mission through operation of sustainable programs that enable family-centered care, bridge access to quality health care, are a vital part of the health care continuum, and strengthen families during difficult times.

RMHC Canada commits annual operating cost grants based on the following general guidelines:

	<u>2018</u>	<u>2017</u>
House	\$110,000	\$100,000
per Bedroom in House	\$3,000	\$2,527
1st Family Room in a hospital	\$33,500	\$30,000
2nd Family Room in the same hospital	\$20,000	\$10,000
24 hour Family Room	\$40,000	n/a

RMHC Canada also commits to capital requirements of the Houses using the following general guidelines:

	<u>2018</u>		<u>2017</u>	
Stand-alone House	\$0 - \$500,000	50% plus	\$0 - \$500,000	50% plus
	\$500,001 - \$1,000,000	30% plus	\$500,001 - \$1,000,000	30% plus
	\$1,000,001 - \$10,000,000	20%	\$1,000,001 - \$10,000,000	20%
House inside a hospital	\$0 - \$1,000,000	50% plus	\$0 - \$1,000,000	50% plus
	\$1,000,001 - \$10,000,000	20%	\$1,000,001 - \$10,000,000	20%
Family rooms	\$0 - \$500,000	50% plus	50% of total capital costs to a maximum of \$200,000	
	\$500,001 - \$600,000	20% plus		
	\$600,001 - \$700,000	10%		

In certain circumstances, the Board of Directors will make exceptions to these general guidelines.

Ronald McDonald House Charities Canada

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2. Summary of significant accounting policies

These financial statements are prepared in accordance with Part III of the CPA Canada Handbook – Accounting, “*Accounting Standards for Not-for-profit Organizations*”, which sets out generally accepted accounting principles for not-for-profit organizations in Canada and includes the significant accounting policies summarized herein:

Fund accounting

To ensure observance of limitations and restrictions placed on the use of the resources available to RMHC Canada, the accounts are maintained in accordance with the principles of fund accounting. Under these principles, the accounts of RMHC Canada have been classified into the following funds:

The general fund reports unrestricted resources available for general operating activities.

The restricted fund reports resources that are to be used for specific purposes as specified by the donor or the Board of Trustees [the “Board”]. Any funds internally restricted by the Board are recorded through a transfer to the respective fund.

Revenue recognition

RMHC Canada follows the restricted fund method of accounting for contributions.

Contributions, grants and bequests are recorded in the appropriate funds when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Unrestricted contributions are recognized as revenue in the general fund when initially recorded in the accounts. Externally restricted contributions are recorded in the restricted fund when initially recognized in the accounts.

Revenue from fundraising is recognized as revenue in the corresponding fund as appropriate in the year received or receivable, if the amount can be reasonably estimated and collection is reasonably assured.

Investment income (loss) consists of interest, dividends, income distributions from pooled funds, and realized and unrealized gains and losses. Investment income earned on restricted fund resources that must be spent on donor-restricted activities is recognized as revenue of the respective fund. General investment income earned on restricted fund and general fund resources is recognized as revenue of the general fund. Investment losses are allocated in a manner consistent with investment income.

Directed donations

RMHC Canada reports directed donations as revenue of the restricted fund when received and expensed when disbursed.

Cash and cash equivalents

Cash balances are deposited with the Royal Bank of Canada and earn interest at the bank’s prime rate less 2.4%, provided that the bank’s prime rate is greater than 2.4%. Cash equivalents comprise cash held for investment.

Ronald McDonald House Charities Canada

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Foreign currency translation

Transactions denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the transaction date. Monetary assets and liabilities are translated into Canadian dollars at exchange rates in effect as at the date of the statement of financial position. Non-monetary assets and liabilities are translated at the historic rate.

Investments

Investments are recorded at fair value. Publicly traded securities and bonds are valued based on the latest bid prices, and pooled funds are valued based on reported unit values. The cash on deposit within each long-term investment fund is considered long-term since that cash will be re-invested in the fund. Transactions are recorded on a trade date basis, and transaction costs are expensed as incurred.

Cash surrender value of insurance policies

The cash surrender value represents the funds that RMHC Canada will receive if the policies are terminated before they mature or the insured event occurs.

Contributed services

McDonald's Restaurants of Canada Limited ["McDonald's"] pays a substantial amount of the administrative expenses of RMHC Canada. McDonald's incurs indirect costs in supporting RMHC Canada, and many of its employees contribute their efforts on a voluntary basis. The value of these contributed services is not easily quantifiable and therefore is not recognized in the financial statements.

Donation boxes

RMHC Canada owns donation boxes that are deployed in McDonald's restaurants.

The donation boxes are recorded at cost and amortized on a straight-line basis over five years.

The donation box collections are primarily distributed to the Houses net of coin collection, processing, program and capital payback deductions.

Grants

Grants to the Ronald McDonald Houses are recorded in the statement of operations and changes in fund balances when formally approved by the Board and the terms for payment have been met. Grants can also be approved by the Executive Board within a budget that is set for this type of grant. The difference, if any, between an approved grant and final payment is reflected in the financial statements in the year the final payment is made. Grants are reversed if it is determined that the funds are no longer required.

Ronald McDonald House Charities Canada

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3. Investments

The fair value of investments consists of the following:

	2018	2017
	\$	\$
Cash – CA Canadian Dollars	19,584	8,510
PH&N Short-term Bond & Mortgage Fund	783,813	2,099,886
PH&N Bond Fund	4,696,998	5,126,853
PH&N Canadian Equity Value Fund	2,271,411	2,673,982
RBC QUBE Low Volatility Canadian Equity Fund	2,494,426	2,153,767
RBC QUBE Low Volatility Global Equity Fund	3,991,114	2,703,473
RBC Global Equity Focus Fund	3,669,487	3,300,743
RBC Emerging Markets Equity Fund	1,336,447	1,231,847
RBC High Yield Bond Fund Series	1,173,022	1,086,565
PH&N MTGE Pension Trust	4,215,293	3,202,420
Total investments	24,651,595	23,588,046
Less cash equivalents	(19,584)	(8,510)
Total long-term investments	24,632,011	23,579,536

As at December 31, 2018, the cost of total investments is \$24,943,574 [2017 – \$23,097,548]. During the year, certain investments were sold and reinvested in other investments realizing \$106,018 of losses [2017 – \$793,235]. Investment income is net of investment management fees incurred of \$104,202 in 2018 [2017 – \$87,242].

4. Donation boxes

The donation boxes are recorded at cost and amortized on a straight-line basis over five years.

	2018	2017
	\$	\$
Cost	2,341,306	2,323,696
Less accumulated amortization	(2,001,675)	(1,554,414)
Net book value	339,631	769,282

5. Government remittances receivable

As at December 31, 2018, prepaid expenses and other assets include government receivable of \$110,667 [2017 – \$42,513].

6. Grants payable

As at December 31, 2018, the balance of \$1,080,920 [2017 – \$460,323] is payable to all of the RMHC Chapters across Canada. The payment was made in January 2019.

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7. Restricted fund balance

The restricted fund balance consists of funds received to support programs in the future, and directed donations. Part of the general fund balance represents up to \$915,600 for general and administrative expenses per year, for 2019 and 2020 approved by the Board.

8. Commitments

As at December 31, 2018, RMHC Canada has commitments with UNICEF Canada to make future donations of \$25,000 [2017 – \$50,000].

9. Financial instruments and risk management

RMHC Canada is exposed to various financial risks through transactions in financial instruments.

Currency risk

RMHC Canada is exposed to foreign currency risk with respect to its investments denominated in foreign currencies, including the underlying investments of its pooled funds denominated in foreign currencies, because the fair value and future cash flows will fluctuate due to the changes in the relative value of foreign currencies against the Canadian dollar.

Interest rate risk

RMHC Canada is exposed to interest rate risk with respect to its investments in fixed income investments and a pooled fund that holds fixed income securities because the fair value will fluctuate due to changes in market interest rates.

10. Related party transactions

Included in revenue are contributions of \$10,293,803 [2017 – \$8,405,983] received or receivable as a result of various fundraising activities by related parties. Included in expenses are costs of \$657,190 [2017 – \$261,886] paid or payable to related parties as a reimbursement for payments made on behalf of RMHC Canada. Related parties include McDonald's, McDonald's franchisees and employees and the members or directors of RMHC Canada. As at December 31, 2018, accounts payable and accrued liabilities included amounts due to related parties of \$85,214 [2017 – \$42,156].

11. Change in accounting policy

Effective January 1, 2018, RMHC Canada adopted the restricted fund method for accounting for contributions, instead of the deferral method. This accounting policy change has been applied retrospectively. As a result, as at January 1, 2017, the restricted fund balance increased by \$249,089, and deferred revenue which had previously been presented was eliminated.

12. Comparative financial statements

The comparative financial statements have been reclassified from financial statements previously presented to conform to the presentation of the 2018 financial statements.