

Ronald McDonald House Charities

Financial statements
December 31, 2017



Independent auditors' report

To the Members of
Ronald McDonald House Charities

Report on the financial statements

We have audited the accompanying financial statements of **Ronald McDonald House Charities**, which comprise the statement of financial position as at December 31, 2017, and the statements of operations and changes in net assets and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these 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.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the 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. 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 financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Ronald McDonald House Charities** as at December 31, 2017, 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.

Report on other legal and regulatory requirements

As required by the *Corporations Act* (Ontario), we report that, in our opinion, Canadian accounting standards for not-for-profit organizations have been applied on a basis consistent with that of the preceding year.

Toronto, Canada
June 12, 2018

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants



Ronald McDonald House Charities

Statement of financial position

As at December 31

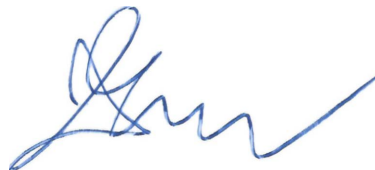
	2017	2016
	\$	\$
Assets		
Current		
Cash and cash equivalents	2,911,292	2,369,226
Short term investments <i>[note 4]</i>	2,099,886	2,224,175
Due from related parties <i>[note 5]</i>	459,502	446,057
Other receivables	316,243	501,021
Cash surrender value of life insurance policies	29,628	28,819
Total current assets	5,816,551	5,569,298
Long-term investments <i>[note 4]</i>	21,479,650	17,746,483
Donation boxes <i>[note 7]</i>	769,282	1,224,176
Total assets	28,065,483	24,539,957
Liabilities and net assets		
Current		
Accounts payable and accrued liabilities <i>[note 5]</i>	331,106	658,192
Grants payable <i>[note 8]</i>	460,323	772,433
Deferred revenue <i>[note 6]</i>	286,365	249,090
Total current liabilities	1,077,794	1,679,715
Total liabilities	1,077,794	1,679,715
Net assets		
Internally restricted fund <i>[note 9]</i>	26,987,690	22,860,242
	28,065,484	24,539,957

See accompanying notes

On behalf of the Board:



Director



Director

Ronald McDonald House Charities

Statement of operations and changes in net assets

Year ended December 31

	2017	2016
	\$	\$
Revenue		
Fundraising events	383,191	748,978
Donations <i>[note 5]</i>	8,967,176	9,147,103
Directed donations	1,035,052	933,798
Restricted contributions	—	150,000
Investment and interest income <i>[note 4]</i>	1,499,857	1,226,421
	11,885,276	12,206,300
Expenses		
Fundraising events	105,476	213,077
General and administrative	469,357	375,754
Directed donations	1,035,052	933,798
Restricted contributions	—	150,000
Donation boxes	498,893	525,427
Amortization <i>[note 7]</i>	458,135	457,238
	2,566,913	2,655,294
Excess of revenue over expenses before grants	9,318,363	9,551,006
Grants <i>[schedule 1]</i>	5,190,916	5,747,469
Excess of revenue over expenses and grants	4,127,447	3,803,537
Net assets, beginning of year	22,860,243	19,056,706
Net assets, end of year	26,987,690	22,860,243

See accompanying notes

Ronald McDonald House Charities

Statement of cash flows

Year ended December 31

	2017	2016
	\$	\$
Operating activities		
Excess of revenue over expenses and grants for the year	4,127,447	3,803,537
Add (deduct) items not involving cash		
Amortization	458,135	457,238
Net donation box write-off	2,662	11,132
Unrealized loss (gain) on investments	110,268	(441,095)
	<u>4,698,512</u>	<u>3,830,812</u>
Changes in non-cash operating assets and liabilities		
Accounts and other receivables	171,333	166,093
Deferred costs	—	41,438
Cash surrender value of life insurance policies	(809)	(1,711)
Accounts payable and accrued liabilities	(327,086)	32,274
Grants payable	(312,110)	521,595
Deferred revenue	37,275	(219,561)
Cash provided by operating activities	<u>4,267,115</u>	<u>4,370,940</u>
Investing activities		
Contributions to investments	(3,719,146)	(4,414,299)
Acquisition of donation boxes	(5,903)	(22,196)
Cash used in investing activities	<u>(3,725,049)</u>	<u>(4,436,495)</u>
Net increase (decrease) in cash during the year	542,066	(65,555)
Cash and cash equivalents, beginning of year	2,369,226	2,434,781
Cash and cash equivalents, end of year	<u>2,911,292</u>	<u>2,369,226</u>

See accompanying notes

Schedule of grants

Year ended December 31

Name of donee	2017	2016
	\$	\$
Ronald McDonald House Charities – Chapters		
Children’s Family House Society of British Columbia (The)	535,546	520,333
Children’s Oncology Family Services of Northern Alberta	277,679	273,120
Fondation des Amis de L’Enfance (Montréal) Inc.	574,025	600,630
Fondation des Amis de L’Enfance (Québec) Inc.	376,546	398,248
Friends of Children (Atlantic) Association	333,948	327,723
Friends of Saskatchewan Children Inc.	259,176	440,094
Kids Care, Oncology, Central West Ontario	344,548	316,135
National Capital Children’s Oncology Care Inc.	254,243	247,457
Pediatric Oncology Family Centre of Manitoba Inc.	218,674	217,962
Southern Alberta Pediatric Hostel Society	426,353	394,922
Southwestern Ontario Children’s Care Inc.	433,436	964,219
Toronto Children’s Care Inc.	950,189	837,579
Ronald McDonald House Newfoundland Inc.	176,324	166,569
	5,160,687	5,704,991
Other donation box grants		
Joseph Brant Hospital Foundation	—	12,415
Oakville Hospital Foundation	5,229	5,063
	5,229	17,478
Executive board approved grants		
Unicef Canada [note 8]	25,000	25,000
	25,000	25,000
Total grants	5,190,916	5,747,469

See accompanying notes

Ronald McDonald House Charities

Notes to financial statements

December 31, 2017

1. Purpose of the organization

Ronald McDonald House Charities [the "Charity"] was incorporated in October 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, the Charity is exempt from income taxes and is able to issue donation receipts for income tax purposes.

The Charity is a national organization committed primarily to supporting Canadian families with sick children through its support for the Canadian Ronald McDonald Houses [the "Houses"] and their programs. The Houses work to serve families with critically ill children being treated at a nearby pediatric hospital.

The Charity commits annual operating cost grants based on the following general guidelines:

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

The Charity also commits to capital requirements of the Houses using the following general guidelines:

	<u>2017</u>		<u>Effective 2018</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	50% of total capital costs to a maximum of \$200,000		\$0 - \$400,000	50% plus
			\$400,001 - \$500,000	50% plus
			\$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

Notes to financial statements

December 31, 2017

2. Significant accounting policies

These financial statements are prepared in accordance with Part III of the CPA Canada Handbook – “*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:

Cash and cash equivalents

Cash balances are deposited with the Royal Bank of Canada and earn interest at the bank’s prime rate less 2.5%, provided that the bank’s prime rate is greater than 2.5%. Cash equivalents comprise cash held for investment.

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 the Charity will receive if the policies are terminated before they mature or the insured event occurs.

Donation boxes

The Charity 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 net assets when formally approved by the Board of Directors 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.

Revenue recognition

The Charity follows the deferral method of accounting for donations. Unrestricted donations are recognized as revenue when received or receivable if the amount to be received can be estimated and collection is reasonably assured. Restricted donations are initially deferred and recognized as revenue in the year in which the related expenses are incurred. Revenue from fundraising events is recognized in the year in which the fundraising event takes place.

Ronald McDonald House Charities

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Investment income, which consists of interest, dividends, income distributions from pooled funds, and realized and unrealized gains and losses, net of transaction costs and expenses, is recorded as revenue in the statement of operations and changes in net assets.

Directed donations

The Charity reports directed donations as revenue when received and expensed when disbursed.

Contributed services

McDonald's Restaurants of Canada Limited ["McDonald's"] pays a substantial amount of the administrative expenses of the Charity. McDonald's incurs indirect costs in supporting the Charity 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.

3. Financial instruments

The Charity is exposed to various financial risks through transactions in financial instruments.

Currency risk

The Charity 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

The Charity 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.

Ronald McDonald House Charities

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4. Investments

The fair value of investments consists of the following:

	2017	2016
	\$	\$
Cash – CA Canadian Dollars	8,510	1,310
PH&N Canadian Money Market Fund	—	24,625
PH&N Short-term Bond & Mortgage Fund	2,099,886	2,224,175
PH&N Bond Fund	5,126,853	4,360,007
PH&N Canadian Equity Value Fund	2,673,982	5,772,213
RBC QUBE Low Volatility Canadian Equity Fund	2,153,767	760,331
RBC QUBE Global Equity Fund	—	2,953,819
RBC QUBE Low Volatility Global Equity Fund	2,703,473	886,532
RBC Global Equity Focus Fund	3,300,743	3,013,581
RBC Emerging Markets Equity Fund	1,231,847	—
RBC HIGH YIELD BOND FUND SERIES	1,086,565	—
PH&N MTGE Pension Trust	3,202,420	—
Total Investments	23,588,046	19,996,593
Less Short-term Bond & Mortgage Fund	2,099,886	2,224,175
Less cash equivalents	8,510	25,935
Total long-term investments	21,479,650	17,746,483

As at December 31, 2017, the cost of total investments is \$23,097,548 [2016 – \$19,395,827]. During the year, certain investments were sold and reinvested in other investments realizing \$793,235 of gains [2016 – \$83,441]. Investment income is net of investment management fees incurred of \$87,242 in 2017 [2016 – \$63,621].

5. Related party transactions

Included in revenue are contributions of \$8,405,983 [2016 – \$8,575,979] received or receivable as a result of various fundraising activities by related parties, including revenue from the Happy Meal program and revenue from Coin Boxes. Included in expenses are costs of \$261,886 [2016 – \$437,059] paid or payable to related parties as a reimbursement for payments made on behalf of the Charity. Related parties include McDonald's, McDonald's franchisees and employees and the members or directors of the Charity. As at December 31, 2017, accounts payable and accrued liabilities included amounts due to related parties of \$42,156 [2016 – \$41,907].

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6. Deferred revenue and costs

Deferred revenue relates to fundraising events to be held in 2018 and other revenue that was not recognized during the year ended December 31, 2017, as the related disbursement has not yet occurred. Deferred revenue includes revenue relating to fundraising events to be held in 2018 of \$92,168 [2016 – \$99,140], \$164,945 for the RBC Mental Health Grant to be dedicated to the RMHC Mental Health Pilot [2016 – \$145,698] and \$29,252 for other unearned revenue received [2016 – \$4,252]. The RBC Mental Health grant is to cover the expenses for the Mental Health Pilot and will be recorded on the statement of operations and changes in net assets as revenue and expense when spending is incurred. To date, the RBC Mental Health program has spent \$580,055 [at the end of 2016 total spent was \$454,302].

7. Donation boxes

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

	2017	2016
	\$	\$
Cost	2,323,696	2,323,093
Accumulated amortization	(1,554,414)	(1,098,917)
Net book value	769,282	1,224,176

8. Grants payable

The following represents outstanding grants payable as at December 31:

Grant year	Charity	Total grant	Paid	Outstanding	
				2017	2016
		\$	\$	\$	\$
2016	Southwestern Ontario Children's Care Inc.	580,176	580,176	—	290,088
2017	Donation box grants payable	2,320,608	1,860,285	460,323	482,345
				460,323	772,433

As at December 31, 2017, the Charity has commitments with Unicef Canada to make future donations of \$50,000 [2016 - \$75,000].

9. Internally restricted fund

The internally restricted fund represents the net assets of the Charity and is not available for general purposes without the approval of the Board of Directors. During the year the Board approved up to \$500,000 of general and administrative expenses per year for 2018, 2019 and 2020.

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10. Reclassification of Prior Year Presentation

Certain prior year amounts have been re-classified. These reclassifications had no effect on the reported results of the operations.