Financial Statements of

[redacted] OF ALBERTA (Registered Society)

Year ended December 31, 2017

KPMG LLP
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INDEPENDENT AUDITORS' REPORT

To the Members of [redacted] of Alberta (Registered Society)

We have audited the accompanying financial statements of [redacted] of Alberta (Registered Society), which comprise the statement of financial position as at December 31, 2017, the statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising 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 our 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, we 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 is sufficient and appropriate to provide a basis for our audit opinion.

KPMG

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of [redacted]f Alberta (Registered Society) as at December 31, 2017, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

KPMG LLP

Chartered Professional Accountants

March 28, 2018
Edmonton, Canada

[redacted] OF ALBERTA (Registered Society)

Financial Statements

Year ended December 31, 2017

[redacted] OF ALBERTA (Registered Society)

Statement of Financial Position

December 31, 2017, with comparative information for 2016

		2017		2016
ASSETS				
Current				
Cash and cash equivalents	**$**	**1,046,845**	$	1,815,125
Investments (note 3)		**568,068**		450,777
Accounts receivable		**1,059,476**		682,354
Prepaid expenses, deposits and other		**207,838**		212,712
		2,882,227		3,160,968
Investments (note 3)		**275,000**		386,680
Prepaid expenses and deposits		**544,225**		392,444
Property and equipment (note 4)		**6,678,586**		3,789,429
	$	**10,380,038**	$	7,729,521
LIABILITIES				
Current				
Accounts payable and accrued liabilities (note 6)	**$**	**2,705,188**	$	2,409,959
Deferred revenues		**62,922**		50,140
Deferred contributions (note 7)		**430,907**		415,989
Current portion of obligation under capital lease		**-**		1,887
Current portion of long-term debt (note 9)		**151,192**		68,994
		3,350,209		2,946,969
Deferred capital contributions (note 8)		**193,170**		24,134
Long-term debt (note 9)		**1,679,814**		331,006
Straight-line rent and tenant inducements (note 10)		**3,617,983**		1,895,247
		8,841,176		5,197,356
Net assets		**1,538,862**		2,532,165
	$	**10,380,038**	$	7,729,521

Credit facility (note 5)
Commitments and contingencies (note 11)

See accompanying notes to financial statements.

On behalf of the Board:

_______________, Director _______________, Director [redacted] **OF ALBERTA** (Registered Society)

Statement of Operations

Year ended December 31, 2017, with comparative information for 2016

		2017		2016
Revenues				
Commercial	$	**24,597,943**	$	21,596,330
Provincial contract fees (note 7)		**2,446,961**		2,384,903
United Way		**124,305**		164,928
Donations, grants and contributions		**134,897**		51,473
Amortization of deferred capital contributions		**30,964**		35,661
Unrealized gain on investments		**5,611**		6,320
Interest revenue		**4,206**		5,393
		27,344,887		24,245,008
Expenses				
Human resources (note 16)		**16,571,203**		14,064,283
Occupancy (note 16)		**7,847,365**		6,119,256
Other operating (note 16)		**2,024,013**		1,814,635
Amortization of property and equipment		**1,002,971**		686,287
Materials (note 16)		**892,638**		630,978
		28,338,190		23,315,439
Excess (deficiency) of revenues over expenses	$	**(993,303)**	$	929,569

See accompanying notes to financial statements.

[redacted] OF ALBERTA (Registered Society)

Statement of Changes in Net Assets

Year ended December 31, 2017, with comparative information for 2016

2017		Unrestricted		Invested in property and equipment		**Total**
Net assets (deficiency), beginning of year	$	258,772	$	2,273,393	**$**	**2,532,165**
Excess (deficiency) of revenues over expenses		(181,627)		(811,676)		**(993,303)**
Investment in property and equipment, net		(694,616)		694,616		**-**
Net assets (deficiency), end of year	$	(617,471)	$	2,156,333	**$**	**1,538,862**

2016		Unrestricted		Invested in property and equipment		Total
Net assets (deficiency), beginning of year	$	(85,222)	$	1,687,818	$	1,602,596
Excess (deficiency) of revenues over expenses		1,401,940		(472,371)		929,569
Investment in property and equipment, net		(1,057,946)		1,057,946		-
Net assets, end of year	$	258,772	$	2,273,393	$	2,532,165

See accompanying notes to financial statements.

[redacted] OF ALBERTA (Registered Society)

Statement of Cash Flows

Year ended December 31, 2017, with comparative information for 2016

	2017	2016
Cash provided by (used in):		
Operating activities:		
Excess (deficiency) of revenues over expenses	**$ (993,303)**	$ 929,569
Amortization of property and equipment	**1,002,971**	686,287
Straight-line rent (note 10)	**314,674**	286,744
Amortization of deferred capital contributions (note 8)	**(30,964)**	(35,661)
Amortization of deferred tenant inducements (note 10)	**(160,331)**	(178,255)
	133,047	1,688,684
Change in non-cash operating working capital		
Accounts receivable	**(377,122)**	(269,490)
Prepaid expenses, deposits and other	**4,874**	(171,361)
Non-current prepaid expenses and deposits	**(151,781)**	(51,825)
Accounts payable and accrued liabilities	**295,229**	568,609
Deferred revenues	**12,782**	(6,720)
Deferred contributions	**14,918**	3,575
	(68,053)	1,761,472
Financing activities:		
Repayment of obligations under capital lease	**(1,887)**	(19,235)
Repayment of long-term debt	**(68,994)**	-
Capital contributions received	**200,000**	-
Tenant inducement received (note 10)	**1,568,393**	716,304
Proceeds from long-term debt (note 9)	**1,500,000**	400,000
	3,197,512	1,097,069
Investing activities:		
Unrealized gain on investments	**(5,611)**	(6,320)
Purchase of investments	**-**	(275,000)
Purchase of property and equipment	**(3,892,128)**	(2,155,015)
	(3,897,739)	(2,436,335)
Net (decrease) increase in cash and cash equivalents	**(768,280)**	422,206
Cash and cash equivalents, beginning of year	**1,815,125**	1,392,919
Cash and cash equivalents, end of year	**$ 1,046,845**	$ 1,815,125
Supplemental cash flow information:		
Cash interest paid	**$ 30,310**	$ 16,399
Cash interest received	**4,206**	5,393

See accompanying notes to financial statements.

1. Purpose of the organization

[redacted] of Alberta (Registered Society) [redacted] a non-profit registered charity incorporated without share capital under the Societies Act of Alberta. [redacted] is a social enterprise providing individuals with disabilities the opportunity to enhance their lives through meaningful employment. No provision for corporate income taxes has been provided in these financial statements pursuant to Section 149(1)(l) of the Income Tax Act, Canada.

2. Significant accounting policies

These financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations and reflect the following policies:

(a) Revenue recognition

[redacted] follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Restricted contributions for the purchase of property and equipment are deferred and recognized as revenue on the same basis as the amortization expense related to the acquired property and equipment. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be estimated and collection is reasonably assured.

Provincial contract fees are recognized as revenue when the related service is performed, the amount to be received or receivable can be reasonably estimated and collection is reasonably assured. United Way and grant revenue is recognized over the term of the related contract or agreement.

Commercial revenues are recognized at the time the service is performed or the contributed item is sold and when reasonable assurance exists regarding the measurement and collection of the consideration received.

A substantial number of volunteers contribute a significant amount of their time each year. Because of the difficulty of determining the fair value, contributed services are not recognized in the financial statements. In-kind donations of services are recorded at fair value when such value can be reasonably determined.

(b) Cash and cash equivalents

Cash and cash equivalents includes cash on hand and balances with banks, net of bank overdrafts. Bank borrowings are considered to be financing activities.

(c) Inventory

Donated materials for resale are not recorded in the financial statements as the fair value of the amounts cannot be reasonably determined. Processing and reconditioning costs applicable to these materials are expensed in the period incurred.

2. Significant accounting policies (continued)

(d) Property and equipment

Purchased property and equipment is recorded at cost. Contributed property and equipment is recorded at fair value at the date of the contribution. Assets acquired under capital leases are amortized over the estimated life of the asset or over the lease term, as appropriate. Repairs and maintenance costs are charged to expense when incurred. Betterments which extend the estimated life of an asset are capitalized. When property or equipment no longer contributes to Goodwill's ability to provide services, its carrying amount is written down to its residual value.

Amortization is calculated using the straight-line method, prorated from the date of acquisition, as follows:

Computers and electronic equipment	3 years
Furniture and equipment	10 years
Vehicles	3 years
Leasehold improvements	Term of the lease (maximum of 10 years)

(e) Employee future benefits

Prior to December 31, 2013, [redacted] had a defined contribution plan that was funded by the employee and employer on a shared basis. Goodwill also had a defined benefit plan covering certain employees that was funded entirely by Goodwill. These plans provided pension, other retirement and post-employment benefits to most of Goodwill's employees. Effective December 31, 2013, the Trustee approved the termination of both plans and both plans began to wind-down following approval from regulatory agencies.

Effective January 1, 2014, [redacted] established a group Registered Retirement Savings Plan (Group RRSP) that is funded by the employee and the employer on a shared basis. Contributions to the Group RRSP for current service is recognized when the contribution is paid (or payable) based on pay dates.

(f) Leases and tenant inducements

Leases are classified as capital or operating leases. A lease that transfers substantially the entire benefits and risks incidental to ownership is classified as a capital lease. All other leases are accounted for as operating leases, wherein rental payments are amortized on a straight line basis over the term of the lease including free rental periods.

Tenant inducements are recognized as reductions in rent expense on a straight-line basis over the term of the related lease.

2. Significant accounting policies (continued)

(g) Financial instruments

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at c[redacted]rtized cost, unless management has elected to carry the instruments at fair value. [redacted] has elected to carry its investments at fair value.

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 costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment [redacted]ll determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of expected cash flows, the amount that could be realized from selling the financial asset or the amount Goodwill expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

(h) Foreign currency translation

Monetary items denominated in foreign currencies are translated to Canadian dollars at the rate of exchange in effect at the statement of financial position date. Gains or losses on translation are included in earnings. Transactions denominated in foreign currencies are translated at the rate of exchange on the date the transaction is completed.

(i) Use of estimates

The preparation of these financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the carrying amount of property and equipment, rates and methods to calculate amortization, assets and obligations related to employee future benefits, accrued liabilities related to tenant inducements and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

3. Investments

		2017		2016
Investment cash account	$	**114,857**	$	123,130
Investment savings account		**341,537**		215,993
Corporate guaranteed investment certificate with stated annually compounding interest rate of 1.9% with maturity date in 2018		**111,674**		-
Corporate guaranteed investment certificate with stated annually compounding interest rate of 1.85% with maturity date in 2017		-		111,654
		568,068		450,777
Corporate guaranteed investment certificate with stated annually compounding interest rate of 1.9%with maturity date in 2018		-		111,680
RBC guaranteed investment certificate with stated annual interest rate of 0.5% (2017 – 0.5%) with maturity date in 2018		275,000		275,000
		275,000		386,680
	$	**843,068**	$	837,457

The RBC guaranteed investment certificate (GIC) with a carrying amount of $275,000 is restricted as cash security for an irrevocable letter of credit issued by Goodwill through RBC with the same face value (note 11). The RBC GIC is renewable annually for four years.

4. Property and equipment

2017		Cost		Accumulated Amortization		**Net Book Value**
Computers and electronic equipment	$	**766,222**	$	**399,914**	$	**366,308**
Furniture and equipment		**2,134,829**		**740,550**		**1,394,279**
Vehicles		**258,966**		**220,903**		**38,063**
Leasehold improvements		**7,368,633**		**2,488,697**		**4,879,936**
Total property and equipment	$	**10,528,650**	$	**3,850,064**	$	**6,678,586**

2016		Cost		Accumulated Amortization		Net Book Value
Computers and electronic equipment	$	566,311	$	253,964	$	312,347
Furniture and equipment		1,569,060		700,124		868,936
Vehicles		249,216		159,751		89,465
Leasehold improvements		5,276,775		2,758,094		2,518,681
Total property and equipment	$	7,661,362	$	3,871,933	$	**3,789,429**

4. Property and equipment (continued)

During the year, Goodwill wrote off fully amortized assets. Reductions to cost and accumulated amortization were $1,024,840 (2016 - $413,351).

Furniture and equipment includes assets under capital lease with a cost of $96,042 (2016 - $205,970) and accumulated amortization of $57,625 (2016 - $157,949).

5. Credit facility

Goodwill has a demand operating loan available to a maximum of $400,000 (2016 – $400,000) of which $nil (2016 – $nil) was outstanding at December 31, 2017. The facility bears interest at the bank's prime rate plus 0.25% (2016 – prime rate plus 0.25%). The facility is secured by an investment portfolio of securities with a minimum market value of $400,000 supported by a security agreement constituting a first ranking security interest in the securities.

6. Accounts payable and accrued liabilities

Included in accounts payable and accrued liabilities are government remittances payable of $73,350 (2016 - $49,333) which includes payroll related taxes.

7. Deferred contributions

Deferred contributions relate to the provision of services to Ministries of the Government of Alberta. Changes in deferred contributions are as follows:

		2017		2016
Balance, beginning of year	**$**	**415,989**	$	412,414
Contributions received/receivable		**2,461,879**		2,388,478
Contributions recognized as revenue		**(2,446,961)**		(2,384,903)
Balance, end of year	**$**	**430,907**	$	415,989

8. Deferred capital contributions

Changes in deferred capital contributions are as follows:

		2017		2016
Balance, beginning of year	**$**	**24,134**	$	59,795
Contributions received		**200,000**		-
Contributions recognized as revenue		**(30,964)**		(35,661)
Balance, end of year	**$**	**193,170**	$	24,134

9. Long-term debt

		2017		2016
Loan payable to Alberta Social Enterprise Venture Fund Inc. (ASEV) bearing interest at 5%, repayable in monthly interest only payments to March 15, 2017, with blended monthly payments of $9,213 commencing April 15, 2017, maturing on March 15, 2021	$	**331,006**	$	400,000
Loan payable to ASEV bearing interest at 6.5%, repayable in monthly interest only payments to October 15, 2018, with blended monthly payments of $35,573 commencing November 15, 2018, maturing on October 15, 2022		**1,500,000**		-
Balance, end of year	$	**1,831,006**	$	400,000
Less current portion of long-term debt		**(151,192)**		(68,994)
	$	**1,679,814**	$	331,006

Loans payable to ASEV are secured by a general security agreement.

10. Straight-line rent and tenant inducements

		2017		2016
Tenant inducements	$	**2,498,077**	$	1,090,015
Straight-line rent		**1,119,906**		805,232
	$	**3,617,983**	$	1,895,247

During the year, Goodwill received $1,568,393 (2016 - $716,304) in tenant inducements and recognized $160,331 (2016 – $178,255) of amortization of deferred tenant inducements as a reduction in rent expense. In addition, during the year Goodwill recognized net straight-line rent expense of $314,674 (2016 – $286,744).

11. Commitments and contingencies

		Premises base rent		Vehicles and equipment rent		Total
2018	$	5,179,072	$	53,239	$	**5,232,311**
2019		5,101,405		53,065		**5,154,470**
2020		4,732,238		52,258		**4,784,496**
2021		4,115,016		50,345		**4,165,361**
2022		2,383,685		24,952		**2,408,637**

11. Commitments and contingencies (continued)

Goodwill has issued, through Royal Bank of Canada (RBC), an irrevocable letter of credit to a landlord in the amount of $275,000 in support of Goodwill's commitments under the terms of a lease agreement. The letter of credit can be drawn down by the landlord if Goodwill does not fulfill its commitments under the lease. The letter of credit is renewable annually for four years and is fully secured by a restricted investment (note 3).

Subsequent to December 31, 2017, Goodwill was named in a lawsuit by a former landlord/owner claiming certain costs, penalties and damages pertaining to the terms of a lease that terminated during 2017. Goodwill has filed a Statement of Defence denying all allegations. The final outcome of the lawsuit is not presently determinable.

12. Employee future benefits

Information about the Goodwill's defined benefit plan is as follows:

		2017		2016
Accrued benefit obligation	**$**	**(219,000)**	$	(212,000)
Fair value of plan assets		215,000		196,000
Accrued benefit liability	**$**	**(4,000)**	$	(16,000)

On October 15, 2013, the Trustee approved the termination of the defined benefit plan and the defined contribution plan effective December 31, 2013. Notices of plan termination were sent to Canada Revenue Agency, Alberta Finance and Enterprise and all active defined benefit and defined contribution plan members stating that contributions into the defined contribution plan would no longer be made after December 31, 2013.

During 2014, funds were disbursed out of the defined benefit plan and defined contribution plan for all active employees subject to statutory limitations. Following the disbursement of any remaining funds, which is expected to be substantially completed by December 31, 2018, both plans will be deregistered. Goodwill does not expect a significant plan deficiency or plan surplus following full disbursement of member funds.

13. Interest in You Can Ride 2

In the current year, [redacted] entered into an asset transfer agreement with the Edmonton Bicycle Commuters Society ("EBC") with respect to the You Can Ride 2 ("YCR2") programs that were previously administered and operated by EBC. Effective October 1, 2017, the assets of YCR2 were transferred at no cost to Goodwill and a $75,000 capital contribution was provided to Goodwill to assist with the construction of YCR2's new headquarters in the Community Engagement Centre located in Goodwill's Edmonton Impact Centre. In addition, Goodwill, through the YCR2's Project Steering Committee ("PSC"), has taken over responsibility for administering and operating the YCR2 programs. For the period from October 1, 2017 to December 31, 2017, [redacted] financial statements include program revenues of $21,845 and related expenses of $11,534 related to the YCR2 programs.

14. Financial risks and concentration of credit risk

(a) Credit risk

Credit risk arises from the possibility that the entities to which Goodwill sells products may experience financial difficulty and be unable to fulfill their contractual obligations. This risk is mitigated by proactive credit management policies that include regular monitoring of the debtor's payment history and performance. Substantially all of Goodwill's commercial sales are settled at the transaction date.

(b) Interest rate risk

Interest rate risk relates to the floating interest rate on the demand operating loan. As at December 31, 2017, the demand operating loan was not drawn on and in management's opinion [redacted] is not exposed to significant interest rate risk. The interest rate on the long-term debt is fixed for the term of the loans.

(c) Foreign currency risk

Foreign currency risk relates to holding funds in a US bank account used to pay US suppliers. In management's opinion, Goodwill is not exposed to significant foreign currency risk.

15. Comparative information

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.

16. Operating expenses

Further details of operating expenses include the following:

		2017		2016
Human resource costs				
Salaries and wages	$	14,756,004	$	12,523,994
Employee benefits		1,520,853		1,330,663
Contracted labour		119,059		108,703
Training, recruitment and other costs		175,287		100,923
	$	16,571,203	$	14,064,283
Occupancy costs				
Rent and other occupancy costs	$	6,576,726	$	5,056,770
Repairs and maintenance		611,595		526,338
Utilities		385,348		302,529
Telephone and communications		165,175		144,130
Insurance		108,521		89,489
	$	7,847,365	$	6,119,256
Other operating costs				
Disposal fees	$	440,659	$	478,923
Vehicle leases and rentals		276,548		245,446
Audit and professional fees		256,742		196,796
Advertising and promotion		413,500		330,394
Fees and other dues		162,274		176,511
Interest and bank charges		249,731		178,216
Travel		125,717		105,261
Affiliation dues		76,046		72,480
Postage and delivery		22,796		26,474
Interest on capital lease		-		3,976
Foreign exchange (loss) gain		-		158
	$	2,024,013	$	1,814,635
Materials costs				
Supplies	$	868,323	$	603,698
Materials		24,315		27,280
	$	892,638	$	630,978