

Financial Statements of

GOODWILL INDUSTRIES OF ALBERTA

Year ended December 31, 2015



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INDEPENDENT AUDITORS' REPORT

To the Members of Goodwill Industries of Alberta

We have audited the accompanying financial statements of Goodwill Industries of Alberta, which comprise the statement of financial position as at December 31, 2015, 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.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Goodwill Industries of Alberta as at December 31, 2015, and its results of operations and cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Chartered Professional Accountants

April 19, 2016
Edmonton, Canada

GOODWILL INDUSTRIES OF ALBERTA

Financial Statements

Year ended December 31, 2015

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GOODWILL INDUSTRIES OF ALBERTA

Statement of Financial Position

December 31, 2015, with comparative information for 2014

| | 2015 | 2014 |
|---|---------------------|---------------------|
| ASSETS | | |
| Current | | |
| Cash | \$ 1,392,919 | \$ 537,968 |
| Investments (note 3) | 332,792 | 320,756 |
| Accounts receivable | 412,864 | 208,843 |
| Prepaid expenses, deposits and other | 41,351 | 34,410 |
| | 2,179,926 | 1,101,977 |
| Investments (note 3) | 223,345 | 226,770 |
| Prepaid expenses and deposits | 340,619 | 333,297 |
| Property and equipment (note 4) | 2,320,701 | 2,338,481 |
| | \$ 5,064,591 | \$ 4,000,525 |
| LIABILITIES | | |
| Current | | |
| Accounts payable and accrued liabilities (note 11) | \$ 1,841,350 | \$ 1,918,956 |
| Deferred revenues | 56,860 | 57,902 |
| Deferred contributions (note 6) | 412,414 | 57,271 |
| Current portion of obligations under capital lease (note 8) | 19,235 | 17,800 |
| | 2,329,859 | 2,051,929 |
| Deferred capital contributions (note 7) | 59,795 | 128,702 |
| Obligations under capital lease (note 8) | 1,887 | 21,122 |
| Straight-line rent and tenant inducements payable (note 9) | 1,070,454 | 1,263,527 |
| | 3,461,995 | 3,465,280 |
| Net assets | 1,602,596 | 535,245 |
| | \$ 5,064,591 | \$ 4,000,525 |

Commitments (note 12)

See accompanying notes to financial statements.

On behalf of the Board:

_____, Director

_____, Director

GOODWILL INDUSTRIES OF ALBERTA

Statement of Operations

Year ended December 31, 2015, with comparative information for 2014

| | 2015 | 2014 |
|--|-------------------|-------------------|
| Revenues | | |
| Commercial | \$ 21,426,431 | \$ 19,225,212 |
| Provincial contract fees (note 6) | 2,421,110 | 2,489,045 |
| United Way | 162,491 | 156,856 |
| Donations, grants and contributions | 58,258 | 67,483 |
| Amortization of deferred capital contributions | 68,907 | 62,446 |
| Unrealized gain on investments | 8,611 | 10,266 |
| Interest revenue | 421 | 284 |
| | 24,146,229 | 22,011,592 |
| Expenses | | |
| Human resource costs (note 15) | 14,168,964 | 13,664,328 |
| Occupancy costs (note 15) | 5,843,996 | 5,654,644 |
| Other operating costs (note 15) | 1,923,848 | 1,839,774 |
| Amortization of property and equipment | 705,158 | 595,072 |
| Material costs (note 15) | 436,912 | 461,187 |
| | 23,078,878 | 22,215,005 |
| Excess (deficiency) of revenues over expenses | \$ 1,067,351 | \$ (203,413) |

See accompanying notes to financial statements.

GOODWILL INDUSTRIES OF ALBERTA

Statement of Changes in Net Assets

Year ended December 31, 2015, with comparative information for 2014

| 2015 | Unrestricted | Investment in property and equipment | Total |
|---|----------------|--|---------------------|
| Net assets (deficiency), beginning of year | \$ (1,635,612) | \$ 2,170,857 | \$ 535,245 |
| Excess (deficiency) of revenues over expenses | 1,703,602 | (636,251) | 1,067,351 |
| Investment in property and equipment | (705,178) | 705,178 | - |
| Net assets (deficiency), end of year | \$ (637,188) | \$ 2,239,784 | \$ 1,602,596 |

| 2014 | Unrestricted | Investment in property and equipment | Total |
|---|----------------|--|--------------|
| Net assets (deficiency), beginning of year | \$ (1,404,736) | \$ 2,143,394 | \$ 738,658 |
| Excess (deficiency) of revenues over expenses | 329,213 | (532,626) | (203,413) |
| Investment in property and equipment | (560,089) | 560,089 | - |
| Net assets (deficiency), end of year | \$ (1,635,612) | \$ 2,170,857 | \$ 535,245 |

See accompanying notes to financial statements.

GOODWILL INDUSTRIES OF ALBERTA

Statement of Cash Flows

Year ended December 31, 2015, with comparative information for 2014

| | 2015 | 2014 |
|---|--------------|--------------|
| Cash provided by (used in): | | |
| Operating activities: | | |
| Excess (deficiency) of revenues over expenses | \$ 1,067,351 | \$ (203,413) |
| Amortization of property and equipment | 705,158 | 595,072 |
| Straight-line rent (note 9) | (128,332) | (91,081) |
| Amortization of deferred capital contributions (note 7) | (68,907) | (62,446) |
| Amortization of deferred tenant inducements (note 9) | (163,141) | (149,923) |
| | 1,412,129 | 88,209 |
| Change in non-cash operating working capital | | |
| Accounts receivable | (204,021) | (14,585) |
| Prepaid expenses, deposits and other | (6,941) | 22,215 |
| Non-current prepaid expenses and deposits | (7,322) | (15,486) |
| Accounts payable and accrued liabilities | (77,606) | 434,968 |
| Deferred revenues | (1,042) | (19,306) |
| Deferred contributions | 355,143 | (73,497) |
| | 1,470,340 | 422,518 |
| Financing activities: | | |
| Repayment of obligations under capital lease | (17,800) | (20,047) |
| Capital contributions received (note 7) | - | 68,701 |
| Tenant inducement received (note 9) | 98,400 | - |
| | 80,600 | 48,654 |
| Investing activities: | | |
| Unrealized gain on investments | (8,611) | (10,266) |
| Purchase of property and equipment | (687,378) | (608,743) |
| | (695,989) | (619,009) |
| Net increase (decrease) in cash | 854,951 | (147,837) |
| Cash, beginning of year | 537,968 | 685,805 |
| Cash, end of year | \$ 1,392,919 | \$ 537,968 |
| Supplemental cash flow information: | | |
| Cash interest paid | \$ 10,628 | \$ 9,085 |
| Cash interest received | 421 | 284 |

See accompanying notes to financial statements.

GOODWILL INDUSTRIES OF ALBERTA

Notes to Financial Statements

Year ended December 31, 2015

1. Purpose of the organization

Goodwill Industries of Alberta ("Goodwill") is a non-profit entity incorporated without share capital under the Societies Act of Alberta. Goodwill 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

Goodwill 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

Cash 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.

GOODWILL INDUSTRIES OF ALBERTA

Notes to Financial Statements

Year ended December 31, 2015

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, Goodwill 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, Goodwill 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.

GOODWILL INDUSTRIES OF ALBERTA

Notes to Financial Statements

Year ended December 31, 2015

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 cost or amortized cost, unless management has elected to carry the instruments at fair value. Goodwill has elected to carry its investments at fair value.

Transactions 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, Goodwill 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.

GOODWILL INDUSTRIES OF ALBERTA

Notes to Financial Statements

Year ended December 31, 2015

3. Investments

| | 2015 | 2014 |
|--|------------|------------|
| Investment cash account | \$ 169 | \$ 108,389 |
| Investment savings account | 214,380 | 212,367 |
| Corporate guaranteed investment certificate with stated annually compounding interest rate of 3.5% with maturity date in 2016 | 118,243 | - |
| | 332,792 | 320,756 |
| Corporate guaranteed investment certificates with stated annually compounding interest rates of 1.85% - 1.9% (2014 - 3.1% - 3.5%) with maturity dates up to 2018 | 223,345 | 226,770 |
| | \$ 556,137 | \$ 547,526 |

4. Property and equipment

| 2015 | Cost | Accumulated Amortization | Net Book Value |
|------------------------------------|--------------|--------------------------|----------------|
| Computers and electronic equipment | \$ 310,223 | \$ 210,678 | \$ 99,545 |
| Furniture and equipment | 1,506,168 | 815,090 | 691,078 |
| Vehicles | 225,206 | 101,929 | 123,277 |
| Leasehold improvements | 3,878,101 | 2,471,300 | 1,406,801 |
| Total property and equipment | \$ 5,919,698 | \$ 3,598,997 | \$ 2,320,701 |

| 2014 | Cost | Accumulated Amortization | Net Book Value |
|------------------------------------|--------------|--------------------------|----------------|
| Computers and electronic equipment | \$ 229,250 | \$ 195,844 | \$ 33,406 |
| Furniture and equipment | 1,452,736 | 828,610 | 624,126 |
| Vehicles | 133,374 | 59,339 | 74,035 |
| Leasehold improvements | 3,582,156 | 1,975,242 | 1,606,914 |
| Total property and equipment | \$ 5,397,516 | \$ 3,059,035 | \$ 2,338,481 |

During the year, Goodwill wrote off fully amortized assets. Reductions to cost and accumulated amortization were \$165,196 (2014 - \$110,356).

Furniture and equipment includes assets under capital lease with a cost of \$258,805 (2014 - \$258,805) and accumulated amortization of \$196,187 (2014 - \$172,196).

GOODWILL INDUSTRIES OF ALBERTA

Notes to Financial Statements

Year ended December 31, 2015

5. Credit facility

Goodwill has a demand operating loan available to a maximum of \$700,000 (2014 – \$700,000) of which \$nil (2014 – \$nil) has been advanced. The facility bears interest at the bank's prime rate plus 0.25% (2014 – prime rate plus 0.25%). Security has been provided for the demand loan as follows:

- (a) General assignment of debts registered in Alberta.
- (b) Fixed and floating charge debenture, in the amount of \$400,000, on all major equipment at year-end. The carrying value of furniture and equipment as at December 31, 2015 is \$691,078 (2014 – \$624,126).
- (c) A \$500,000 investment portfolio of securities supported by a security agreement constituting a first ranking security interest in the securities.

6. Deferred contributions

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

| | 2015 | 2014 |
|-------------------------------------|-------------|-------------|
| Balance, beginning of year | \$ 57,271 | \$ 130,768 |
| Contributions received | 2,776,253 | 2,415,548 |
| Contributions recognized as revenue | (2,421,110) | (2,489,045) |
| Balance, end of year | \$ 412,414 | \$ 57,271 |

7. Deferred capital contributions

Changes in deferred capital contributions are as follows:

| | 2015 | 2014 |
|-------------------------------------|------------|------------|
| Balance, beginning of year | \$ 128,702 | \$ 122,447 |
| Contributions received | - | 68,701 |
| Contributions recognized as revenue | (68,907) | (62,446) |
| Balance, end of year | \$ 59,795 | \$ 128,702 |

GOODWILL INDUSTRIES OF ALBERTA

Notes to Financial Statements

Year ended December 31, 2015

8. Obligations under capital leases

| | 2015 | 2014 |
|--|-----------|-----------|
| National Leasing | \$ 21,122 | \$ 38,922 |
| Less current portion of obligation under capital lease | (19,235) | (17,800) |
| | \$ 1,887 | \$ 21,122 |

National Leasing, payable in 60 monthly payments of \$1,641 plus GST, 6.7% nominal annual rate, due January 2017, secured by a pre-crusher with net book value of \$50,369 (2014 - \$58,764).

Future minimum lease payments in each of the next two remaining years are as follows:

| | |
|-----------------------------------|------------------|
| 2016 | \$ 19,692 |
| 2017 | 1,641 |
| | <u>21,333</u> |
| Less amount representing interest | (211) |
| | <u>\$ 21,122</u> |

9. Straight-line rent and tenant inducements payable

| | 2015 | 2014 |
|--------------------|--------------|--------------|
| Tenant inducements | \$ 551,966 | \$ 616,707 |
| Straight-line rent | 518,488 | 646,820 |
| | \$ 1,070,454 | \$ 1,263,527 |

During the year, Goodwill received \$98,400 (2014 - \$nil) in tenant inducements and recognized \$163,141 (2014- \$149,923) of amortization of deferred tenant inducements as a reduction in rent expense. In addition, during the year Goodwill recognized net straight-line rent income of \$128,332 (2014 - \$91,081).

10. Employee future benefits

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

| | 2015 | 2014 |
|----------------------------|--------------|--------------|
| Accrued benefit obligation | \$ (205,000) | \$ (198,000) |
| Fair value of plan assets | 178,000 | 177,000 |
| Accrued benefit liability | \$ (27,000) | \$ (21,000) |

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.

GOODWILL INDUSTRIES OF ALBERTA

Notes to Financial Statements

Year ended December 31, 2015

10. Employee future benefits (continued)

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, 2016, both plans will be deregistered. Goodwill does not expect a significant plan deficiency or plan surplus following full disbursement of member funds.

11. Accounts payable and accrued liabilities

Included in accounts payable and accrued liabilities are government remittances payable of \$166,620 (2014 - \$125,209) which includes payroll related taxes.

12. Commitments

| | Premises base rent | Vehicles and equipment rent | Total |
|------|-----------------------|--------------------------------|--------------------|
| 2016 | 3,651,466 | 16,385 | \$3,667,851 |
| 2017 | 3,241,738 | 13,122 | 3,254,860 |
| 2018 | 2,420,954 | 4,882 | 2,425,836 |
| 2019 | 2,072,897 | 808 | 2,073,705 |
| 2020 | 1,653,211 | - | 1,653,211 |

13. 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.

(b) Interest rate risk

Interest rate risk relates to the floating interest rate on the demand operating loan. As at December 31, 2015, the demand operating loan was not drawn on and in management's opinion, Goodwill is not exposed to significant interest rate risk.

(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.

14. Comparative information

Certain comparative information has been restated to conform with the current year's presentation.

GOODWILL INDUSTRIES OF ALBERTA

Notes to Financial Statements

Year ended December 31, 2015

15. Operating expenses

Further details of operating expenses include the following:

| | 2015 | 2014 |
|---|----------------------|----------------------|
| Human resource costs | | |
| Salaries and wages | \$ 12,586,808 | \$ 12,053,011 |
| Employee benefits | 1,320,833 | 1,315,388 |
| Contracted labour | 95,149 | 167,849 |
| Training, recruitment and other costs | 166,174 | 128,080 |
| | \$ 14,168,964 | \$ 13,664,328 |
| Occupancy costs | | |
| Rent and other occupancy costs | \$ 4,587,593 | \$ 4,448,966 |
| Repairs and maintenance | 690,967 | 592,897 |
| Utilities | 339,798 | 389,919 |
| Telephone and communications | 144,877 | 142,520 |
| Insurance | 80,761 | 80,342 |
| | \$ 5,843,996 | \$ 5,654,644 |
| Other operating costs | | |
| Disposal fees | \$ 630,535 | \$ 596,312 |
| Vehicle leases and rentals | 236,186 | 307,104 |
| Audit and professional fees | 216,981 | 152,788 |
| Advertising and promotion | 328,801 | 372,347 |
| Fees and other dues | 139,504 | 58,916 |
| Card processing fees, interest and bank charges | 173,825 | 141,875 |
| Travel | 95,105 | 112,085 |
| Affiliation dues | 72,350 | 70,068 |
| Postage and delivery | 28,858 | 24,588 |
| Interest on capital lease | 2,385 | 3,975 |
| Foreign exchange gain | (682) | (284) |
| | \$ 1,923,848 | \$ 1,839,774 |
| Materials costs | | |
| Supplies | \$ 413,902 | \$ 439,879 |
| Materials | 23,010 | 21,308 |
| | \$ 436,912 | \$ 461,187 |

16. Subsequent events

Subsequent to December 31, 2015, Goodwill completed a transaction whereby Alberta Social Enterprise Venture Fund Inc. provided a loan with a principal amount of \$400,000, bearing interest at 5% per annum and repayable over five years (first year interest only) secured by a General Security Agreement. As a result, the General Security Agreement and floating charge debenture held by the bank (note 5) was released and the operating loan was reduced to \$400,000.

In addition, subsequent to December 31, 2015, the Board of Directors approved entering into a ten-year warehouse space lease commencing May 1, 2016 with total lease payments through the term of \$6,556,896.