

FINANCIAL STATEMENTS
For
CANADIAN ASSOCIATION FOR LABORATORY ACCREDITATION INC.
For year ended
DECEMBER 31, 2016

CANADIAN ASSOCIATION FOR LABORATORY ACCREDITATION INC.
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2016

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INDEPENDENT AUDITOR'S REPORT

To the members of the

CANADIAN ASSOCIATION FOR LABORATORY ACCREDITATION INC.

We have audited the accompanying financial statements of Canadian Association for Laboratory Accreditation Inc., which comprise the statement of financial position as at December 31, 2016 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.

Auditor's 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 auditor's 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 auditor considers 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 Canadian Association for Laboratory Accreditation Inc. as at December 31, 2016 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.



Chartered Professional Accountants
Licensed Public Accountants

Ottawa, Ontario
March 9, 2017.

CANADIAN ASSOCIATION FOR LABORATORY ACCREDITATION INC.

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2016

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 556,238	\$ 559,900
Short-term investments (note 6)	602,219	401,257
Amounts receivable	102,845	251,095
Prepaid expenses	<u>66,687</u>	<u>75,193</u>
	1,327,989	1,287,445
LONG-TERM INVESTMENTS (note 3)	1,028,971	1,605,309
TANGIBLE CAPITAL ASSETS (note 4)	79,909	27,979
INTANGIBLE ASSET (note 5)	<u>839,497</u>	<u>339,287</u>
	<u>\$ 3,276,366</u>	<u>\$ 3,260,020</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 549,946	\$ 741,840
Deferred revenue	357,425	350,160
Deferred lease inducement	<u>89,909</u>	<u>-</u>
	<u>997,280</u>	<u>1,092,000</u>
UNRESTRICTED NET ASSETS	<u>2,279,086</u>	<u>2,168,020</u>
	<u>\$ 3,276,366</u>	<u>\$ 3,260,020</u>

Approved by the Board:

..... Director

..... Director

(See accompanying notes)

Welch LLP[®]

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CANADIAN ASSOCIATION FOR LABORATORY ACCREDITATION INC.
STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2016

	<u>2016</u>	<u>2015</u>
Revenue		
Evaluations	\$ 3,066,113	\$ 3,120,050
Memberships	147,200	146,982
Miscellaneous income	(3,903)	15,636
Training	<u>264,873</u>	<u>318,302</u>
	<u>3,474,283</u>	<u>3,600,970</u>
Expenses		
Advertising and promotion	13,414	26,766
Amortization of tangible capital assets	19,288	4,438
Bad debts	5,000	5,000
Copying and printing	10,482	10,843
Evaluations	1,197,081	1,308,049
Insurance	15,385	14,908
International mutual recognition arrangement	19,982	19,129
Office, IT and telecommunications	226,695	286,374
Postage and shipping	14,808	13,521
Professional fees	61,885	36,790
Rent	174,954	189,029
Salaries and benefits	1,467,622	1,447,464
Training	78,792	161,690
Travel and meetings	<u>87,913</u>	<u>83,257</u>
	<u>3,393,301</u>	<u>3,607,258</u>
Excess of revenue over expenses (expenses over revenue) from operations	<u>80,982</u>	<u>(6,288)</u>
Other revenue		
Investment income, net of investment management fees	14,933	35,511
Gain on disposal of investments	12,646	55,381
Unrealized gain (loss) on investments	<u>2,505</u>	<u>(44,156)</u>
	<u>30,084</u>	<u>46,736</u>
Excess of revenue over expenses	111,066	40,448
Net assets, beginning of year	<u>2,168,020</u>	<u>2,127,572</u>
Net assets, end of year	<u>\$ 2,279,086</u>	<u>\$ 2,168,020</u>

(See accompanying notes)

CANADIAN ASSOCIATION FOR LABORATORY ACCREDITATION INC.

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2016

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenue over expenses	\$ 111,066	\$ 40,448
Non-cash items:		
Amortization of tangible capital assets	19,288	4,438
Gain on disposal of investments	(12,646)	(55,381)
Unrealized gains (loss) on investments	(2,505)	44,156
Changes in working capital items		
Amounts receivable	148,250	(70,435)
Prepaid expenses	8,506	16,760
Accounts payable and accrued liabilities	(191,894)	318,332
Deferred revenue	7,265	(110,553)
Deferred lease inducement	89,909	-
	<u>177,239</u>	<u>187,765</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(1,564,606)	(346,631)
Redemption of investments	1,955,133	717,194
Acquisition of tangible capital assets	(71,218)	(30,583)
Investment in intangible asset	(500,210)	(339,287)
	<u>(180,901)</u>	<u>693</u>
INCREASE (DECREASE) IN CASH	(3,662)	188,458
CASH, BEGINNING OF YEAR	<u>559,900</u>	<u>371,442</u>
CASH, END OF YEAR	<u>\$ 556,238</u>	<u>\$ 559,900</u>

(See accompanying notes)

CANADIAN ASSOCIATION FOR LABORATORY ACCREDITATION INC.
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016

1. GOVERNING STATUTES AND NATURE OF OPERATIONS

The Canadian Association for Laboratory Accreditation Inc. ("the Association") is a not-for-profit organization, incorporated without share capital under the Canada Not-for-profit Corporations Act, to raise the level of competency, consistency, capability and communication within laboratories, and under the provisions of the Income Tax Act, is exempt from tax.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations and include the following significant accounting policies.

Accounting estimates

The presentation of financial statements in accordance with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the amounts recorded in the financial statements and notes to financial statements. These estimates are based on management's best knowledge of current events and actions that the Association may undertake in the future. Significant estimates include those used when assessing the collectibility of accounts receivable, accounting for accrued liabilities and the estimated useful lives of tangible capital and intangible assets. All estimates are reviewed periodically and adjustments are made to the statement of operations, as appropriate, in the year they become known.

Financial instruments

i) Measurement of financial instruments

Cash and investments are initially recognized and subsequently measured at fair value. All other financial instruments are initially measured at fair value and subsequently measured at amortized cost.

ii) Transaction costs

Transaction costs associated with the acquisition and disposal of investments are expensed as incurred.

Revenue recognition

The Association follows the deferral method of accounting for contributions. Under this method, contributions restricted for future periods are deferred and are recognized as revenue in the year in which the related expenses are incurred. If the amount to be received can be reasonably estimated and collection is reasonably assured unrestricted contributions are recognized as revenue when earned.

The principal sources of revenue and their respective recognition policies are as follows:

- Evaluation revenue is recognized in the year tests/services are completed;
- Membership revenue is recognized in the fiscal year to which the membership relates;
- Training revenue is recognized when the training event takes place;
- Revenues derived from projects and conferences are recognized as the services are rendered; and
- Interest income is recognized based on the number of days the investment was held during the year and is calculated using the effective interest method. Dividends are recognized as of the ex-dividend date.

Amortization

Tangible capital assets are recorded at cost and amortized over their estimated useful lives according to the following methods and annual rates:

	<u>Methods</u>	<u>Rates</u>
Office equipment and furniture	Diminishing balance	20%
Computer equipment	Straight-line	45%

CANADIAN ASSOCIATION FOR LABORATORY ACCREDITATION INC.

NOTES TO THE FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED DECEMBER 31, 2016

2. SIGNIFICANT ACCOUNTING POLICIES - Cont'd.

Foreign currency translation

Monetary assets and liabilities in foreign currency are translated at the exchange rate in effect at the year end date. Revenue and expenses in foreign currency are translated at the average rate in effect during the year. Gains and losses are recognized in the statements of operations.

Donated services

The work of the Association is assisted by the contribution of time and expenses by volunteers, the value of which is not recognized in these financial statements.

Deferred lease inducement

The Association recognizes rent expense on its premises on a straight-line basis over the term of the lease. Lease inducements received by the Association as rent free periods are deferred and amortized over a straight-line basis over the term of the lease as a reduction in the rent expense.

3. LONG-TERM INVESTMENTS

	2016		2015	
	Market	Cost	Market	Cost
Equities and mutual funds	\$ 372,302	\$ 357,995	\$ 400,956	\$ 442,866
Fixed income securities	<u>656,669</u>	<u>668,470</u>	<u>1,204,353</u>	<u>1,206,761</u>
	<u>\$ 1,028,971</u>	<u>\$ 1,026,465</u>	<u>\$ 1,605,309</u>	<u>\$ 1,649,627</u>

4. TANGIBLE CAPITAL ASSETS

The Association's tangible capital assets consist of the following:

	2016			2015		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
Office equipment and furniture	\$ 95,031	\$ 48,807	\$ 46,224	\$ 43,941	\$ 43,941	\$ -
Computer equipment	<u>111,079</u>	<u>77,394</u>	<u>33,685</u>	<u>94,019</u>	<u>66,040</u>	<u>27,979</u>
	<u>\$ 206,110</u>	<u>\$ 126,201</u>	<u>\$ 79,909</u>	<u>\$ 137,960</u>	<u>\$ 109,981</u>	<u>\$ 27,979</u>

5. INTANGIBLE ASSET

As of December 31, 2016, the Association has incurred costs of \$839,497 (2015 - \$339,287) for the development of a new software system.

CANADIAN ASSOCIATION FOR LABORATORY ACCREDITATION INC.
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED DECEMBER 31, 2016

6. FINANCIAL INSTRUMENTS

The Association is exposed to and manages various financial risks resulting from both operations and investment activities, and does not enter into financial instrument agreements including derivative financial instruments for speculative purposes.

The Association's main financial risk exposure and its financial risk management policies are as follows:

Credit risk

The Association is exposed to credit risk resulting from the possibility that parties may default on their financial obligations. The Association's maximum exposure to credit risk is the sum of the carrying value of its cash and amounts receivable. The Association's cash is deposited with a Canadian Chartered bank and as a result, management believes the risk of loss of this item to be remote. The Association's amounts receivable consist of a large number of entities and credit risk is generally diversified. Moreover, the Association requires laboratories to pre-pay for various services which further mitigates credit risk. Amounts receivable balances are managed and analyzed on an ongoing basis and accordingly, exposure to bad debts is not considered significant and the allowance for doubtful accounts at December 31, 2016 is sufficient.

Liquidity risk

Liquidity risk is the risk that the Association cannot meet a demand for cash or fund its obligations as they become due. The Association manages its liquidity requirements by establishing budgets and cash estimates to ensure it has funds necessary to fulfil its obligations.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of currency risk, interest rate risk and other price risk.

i) *Currency risk*

Currency risk refers to the risk that the fair value of instruments or future cash flows associated with the instruments will fluctuate relative to the Canadian dollar due to changes in foreign exchange rates.

As at December 31, 2016, cash includes \$300,148 (2015 - \$264,615) translated into Canadian Dollars from US Dollars. The Association does not use forward exchange contracts to reduce exchange risk exposure.

ii) *Interest rate risk*

Interest rate risk refers to the risk that the fair value of financial instruments or future cash flows associated with the financial instruments will fluctuate due to changes in market interest rates. The Association's exposure to interest rate risk arises from its short-term investments which include amounts invested in guaranteed investment certificates (GICs) and other fixed income securities that earn interest at market rates. These investments bear interest at rates ranging from 0.6% to 6.93% per annum and mature from March 2017 to June 2032.

iii) *Other price risk*

Other price risk refers to the risk that the fair value of financial instruments or future cash flows will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all similar instruments traded in the market.

The Association is exposed to other price risk due to its investment in shares in public companies, bonds and mutual funds. The Association's investment portfolio is managed by its financial advisor with the objective of earning a long-term annual rate of return that exceeds the Consumer Price Index by 2%. Risk and volatility of investment returns are mitigated through diversification of investments in business sectors and corporation sizes and by requiring that approximately 75% of the portfolio be invested in fixed income securities.

Changes in risk

There have been no significant changes in the Association's risk exposures from the prior year.

CANADIAN ASSOCIATION FOR LABORATORY ACCREDITATION INC.**NOTES TO THE FINANCIAL STATEMENTS - Cont'd.****YEAR ENDED DECEMBER 31, 2016****7. COMMITMENTS**

The Association has entered into a long-term lease agreement expiring in June 2026 which requires remaining aggregate lease payments of \$1,686,181 for the rental of premises. Minimum lease payments for the next five years are as follows:

2017	\$ 154,015
2018	160,328
2019	166,640
2020	172,952
2021	179,475