

FINANCIAL STATEMENTS
For
CANADIAN ASSOCIATION FOR LABORATORY ACCREDITATION INC.
For year ended
DECEMBER 31, 2012

CANADIAN ASSOCIATION FOR LABORATORY ACCREDITATION INC.
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2012

| | <u>Page</u> |
|---|-------------|
| Independent auditor's report | 1 & 2 |
| Statement of financial position | 3 |
| Statement of operations and changes in net assets | 4 |
| Statement of cash flows | 5 |
| Notes to the financial statements | 6 - 10 |

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, 2012 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.

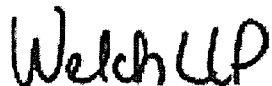
Opinion

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, 2012 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.

Comparative Information

Without modifying our opinion, we draw attention to note 2 to the financial statements which describes that Canadian Association for Laboratory Accreditation Inc. adopted Canadian accounting standards for not-for-profit organizations on January 1, 2012 with a transition date of January 1, 2011. These standards were applied retrospectively by management to the comparative information in these financial statements, including the statement of financial position as at December 31, 2011 and January 1, 2011, and the statements of operations and changes in net assets and cash flows for the year ended December 31, 2011 and related disclosures. We were not engaged to report on the restated comparative information, and as such, it has not been audited by our firm.

The Canadian Association for Laboratory Accreditation Inc. previously issued a set of financial statements for the year ended December 31, 2011 which were prepared in accordance with Canadian generally accepted accounting principles in effect at that time. These financial statements were audited by another auditor who expressed an unmodified opinion on those statements on March 8, 2012.



Chartered Accountants
Licensed Public Accountants

Ottawa, Ontario
March 7, 2013.

CANADIAN ASSOCIATION FOR LABORATORY ACCREDITATION INC.
FINANCIAL POSITION
DECEMBER 31, 2012

| | <u>Dec. 31,</u> <u>2012</u> | <u>Dec. 31,</u> <u>2011</u> | <u>Jan. 1,</u> <u>2011</u> |
|---|--------------------------------|--------------------------------|-------------------------------|
| <u>ASSETS</u> | | | |
| CURRENT ASSETS | | | |
| Cash | \$ 478,574 | \$ 444,839 | \$ 412,612 |
| Short-term investments | - | 483,966 | 626,181 |
| Amounts receivable | 354,925 | 384,028 | 372,946 |
| Prepaid expenses | <u>60,759</u> | <u>50,572</u> | <u>65,365</u> |
| | 894,258 | 1,363,405 | 1,477,104 |
| LONG-TERM INVESTMENTS (note 4) | 1,712,587 | 1,258,619 | 1,238,435 |
| CAPITAL ASSETS (note 5) | <u>194,541</u> | <u>110,169</u> | <u>32,648</u> |
| | <u>\$ 2,801,386</u> | <u>\$ 2,732,193</u> | <u>\$ 2,748,187</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | | |
| CURRENT LIABILITIES | | | |
| Accounts payable and accrued liabilities (note 6) | \$ 485,215 | \$ 490,338 | \$ 445,522 |
| Deferred revenue | <u>435,525</u> | <u>403,565</u> | <u>608,965</u> |
| | <u>920,740</u> | <u>893,903</u> | <u>1,054,487</u> |
| UNRESTRICTED NET ASSETS | <u>1,880,646</u> | <u>1,838,290</u> | <u>1,693,700</u> |
| | <u>\$ 2,801,386</u> | <u>\$ 2,732,193</u> | <u>\$ 2,748,187</u> |

Approved by the Board:


..... Director


..... Director

(See accompanying notes)

Welch LLP

CANADIAN ASSOCIATION FOR LABORATORY ACCREDITATION INC.
STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2012

| | <u>2012</u> | <u>2011</u> |
|---|---------------------|---------------------|
| Revenue | | |
| Evaluations | \$ 2,636,001 | \$ 2,603,481 |
| Memberships | 155,810 | 160,020 |
| Miscellaneous income | 9,671 | 10,052 |
| Training | <u>271,738</u> | <u>380,524</u> |
| | <u>3,073,220</u> | <u>3,154,077</u> |
| Expenses | | |
| Advertising and promotion | 57,889 | 18,527 |
| Amortization of capital assets | 15,123 | 15,869 |
| Bad debts | 52 | 2,846 |
| Copying and printing | 14,016 | 15,262 |
| Evaluations | 1,080,938 | 1,136,312 |
| Insurance | 17,072 | 16,801 |
| International MRA | 22,064 | 22,259 |
| Office and telecommunications | 80,061 | 87,313 |
| Postage and shipping | 11,317 | 10,800 |
| Professional fees | 24,649 | 30,115 |
| Rent | 180,261 | 179,275 |
| Salaries, benefits and consulting fees | 1,309,890 | 1,274,168 |
| Training | 183,990 | 158,142 |
| Travel and meetings | <u>96,928</u> | <u>80,576</u> |
| | <u>3,094,250</u> | <u>3,048,265</u> |
| Excess of revenue over expenses (expenses over revenues) from operations | <u>(21,030)</u> | <u>105,812</u> |
| Other revenue | | |
| Investment income, net of investment management fees | 32,015 | 34,313 |
| Loss on disposal of investments | (2,489) | (1,568) |
| Unrealized gains on investments | <u>33,860</u> | <u>6,033</u> |
| | <u>63,386</u> | <u>38,778</u> |
| Excess of revenue over expenses | 42,356 | 144,590 |
| Net assets, beginning of year | <u>1,838,290</u> | <u>1,693,700</u> |
| Net assets, end of year | <u>\$ 1,880,646</u> | <u>\$ 1,838,290</u> |

(See accompanying notes)

Welch LLP

An Independent Member of BKR International

CANADIAN ASSOCIATION FOR LABORATORY ACCREDITATION INC.

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2012

| | <u>2012</u> | <u>2011</u> |
|---|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Excess of revenue over expenses | \$ 42,356 | \$ 144,590 |
| Non-cash items: | | |
| Amortization of capital assets | 15,123 | 15,869 |
| Loss on disposal of investments | 2,489 | 1,568 |
| Unrealized gains on investments | (33,860) | (6,033) |
| Changes in working capital items | | |
| Amounts receivable | 29,103 | (11,082) |
| Prepaid expenses | (10,187) | 14,793 |
| Accounts payable and accrued liabilities | (5,123) | 44,816 |
| Deferred revenue | <u>31,960</u> | <u>(205,400)</u> |
| | <u>71,861</u> | <u>(879)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of investments | (740,739) | (511,760) |
| Redemption of investments | 802,108 | 638,256 |
| Acquisition of capital assets | <u>(99,495)</u> | <u>(93,390)</u> |
| | <u>(38,126)</u> | <u>33,106</u> |
| INCREASE IN CASH | 33,735 | 32,227 |
| CASH, BEGINNING OF YEAR | <u>444,839</u> | <u>412,612</u> |
| CASH, END OF YEAR | <u>\$ 478,574</u> | <u>\$ 444,839</u> |

(See accompanying notes)

Welch LLP

An Independent Member of BRR International

CANADIAN ASSOCIATION FOR LABORATORY ACCREDITATION INC.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

1. GOVERNING STATUES AND NATURE OF OPERATIONS

The Canadian Association for Laboratory Accreditation Inc. is a not-for-profit organization, incorporated without share capital under the Canada 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. ADOPTION OF ACCOUNTING STANDARDS FOR NOT-FOR-PROFIT ORGANIZATIONS

Effective January 1, 2012, the Association adopted the new accounting framework Canadian accounting standards for not-for-profit organizations (ASNFPPO). These are the Association's first financial statements prepared in accordance with ASNFPPO and the transitional provisions of Section 1501, *First-time Adoption* have been applied. Section 1501 requires retrospective application of the accounting standards with certain elective exemptions and limited retrospective exceptions. The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended December 31, 2012, the comparative information presented in these financial statements for the year ended December 31, 2011 and in the preparation of an opening ASNFPPO statement of financial position at January 1, 2011 (the Association's date of transition). The Association previously issued financial statements for the year ended December 31, 2011 using Canadian generally accepted accounting principles (GAAP).

The adoption of ASNFPPO did not result in adjustments to the previously reported assets, liabilities and net assets but did have an impact on previously reported excess of revenue over expenses.

The effect of adopting ASNFPPO retrospectively to the statement of operations and changes in net assets for the year ended December 31, 2011, previously reported in accordance with GAAP, is as follows:

| | <u>GAAP</u> | <u>Transition</u> | <u>ASNFPPO</u> |
|---|---------------------|-------------------|---------------------|
| Revenue | \$ 3,154,077 | \$ - | \$ 3,154,077 |
| Expenses | <u>3,048,265</u> | <u>-</u> | <u>3,048,265</u> |
| Excess of revenue over expenses from operations | <u>105,812</u> | <u>-</u> | <u>105,812</u> |
| Other income | | | |
| Investment income | 34,313 | - | 34,313 |
| Loss on disposal of investments | (1,568) | - | (1,568) |
| Unrealized gain on investments | (a) <u>-</u> | <u>6,033</u> | <u>6,033</u> |
| | <u>32,745</u> | <u>6,033</u> | <u>38,778</u> |
| Excess of revenue over expenses | 138,557 | 6,033 | 144,590 |
| Net assets, beginning of year | <u>1,693,700</u> | <u>-</u> | <u>1,693,700</u> |
| | 1,832,257 | - | 1,838,290 |
| Unrealized gains on investments | (a) <u>6,033</u> | <u>(6,033)</u> | <u>-</u> |
| Net assets, end of year | <u>\$ 1,838,290</u> | <u>\$ -</u> | <u>\$ 1,838,290</u> |

(a) The Association carries its investments at fair value and is now required to recognize any unrealized gains and losses from its investments in the statement of operations. Under GAAP, these unrealized gains and losses were recognized in net assets.

There were no changes to the Association's previously reported total cash flows from operating, investing or financing activities as a result of the above changes.

CANADIAN ASSOCIATION FOR LABORATORY ACCREDITATION INC.
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED DECEMBER 31, 2012

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organization's 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 accounting for accrued liabilities and the amortization of capital 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 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 principle sources of revenue and their respective recognition policies are as follow:

- Evaluation revenue is recognized in the year tests/services are completed;
- 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;
- Membership revenue is recognized in the fiscal year to which the membership relates;
- Revenue derived from projects and conferences are recognized as the services are rendered; and
- Training revenue is recognized when the training event takes place.

Amortization

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, 2012

3. SIGNIFICANT ACCOUNTING POLICIES - Cont'd.

Foreign currency translation

Monetary assets 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 included 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.

4. LONG-TERM INVESTMENTS

| | 2012 | | 2011 | |
|------------------------------|---------------------|---------------------|---------------------|---------------------|
| | Market | Cost | Market | Cost |
| Shares in public companies * | \$ 452,267 | \$ 375,344 | \$ 329,083 | \$ 288,598 |
| Fixed income bond index fund | <u>1,260,320</u> | <u>1,272,281</u> | <u>929,536</u> | <u>930,807</u> |
| | <u>\$ 1,712,587</u> | <u>\$ 1,647,625</u> | <u>\$ 1,258,619</u> | <u>\$ 1,219,405</u> |

| | 2012 | 2011 |
|--|------|------|
| * Public companies operating in the following sectors: | | |
| Banking and financial services | 70% | 74% |
| Commercial | 16% | 11% |
| Energy and resources | 11% | 13% |
| Transportation | 3% | 2% |

5. CAPITAL ASSETS

The Association's capital assets consist of the following:

| | 2012 | | | 2011 | | |
|--------------------------------|-------------------|--------------------------|-------------------|-------------------|--------------------------|-------------------|
| | Cost | Accumulated amortization | Net | Cost | Accumulated amortization | Net |
| Office equipment and furniture | \$ 76,834 | \$ 65,863 | \$ 10,971 | \$ 76,834 | \$ 63,120 | \$ 13,714 |
| Computer equipment | 90,781 | 81,496 | 9,285 | 93,973 | 78,618 | 15,355 |
| Software | <u>174,285</u> | <u>-</u> | <u>174,285</u> | <u>81,100</u> | <u>-</u> | <u>81,100</u> |
| | <u>\$ 341,900</u> | <u>\$ 147,359</u> | <u>\$ 194,541</u> | <u>\$ 251,907</u> | <u>\$ 141,738</u> | <u>\$ 110,169</u> |

As of December 31, 2012, the Association incurred costs of \$174,285 for the development of a new software system. The system was not in use as of December 31, 2012 and accordingly no amortization was recorded on this asset.

6. GOVERNMENT REMITTANCES PAYABLE

Included in accounts payable and accrued liabilities is \$nil (2011 - \$104) in government remittances payable.

CANADIAN ASSOCIATION FOR LABORATORY ACCREDITATION INC.
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED DECEMBER 31, 2012

7. FINANCIAL INSTRUMENTS

The Association is exposed to and manages various financial risks resulting from both of the operations and its 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 represents 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 consists 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.

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 meets 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, 2012, financial assets in foreign currency represent cash totaling US \$40,878 (2011 - \$25,911). 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. As the Association's financial instruments are non-interest bearing, the Association's financial assets and liabilities do not constitute an interest rate risk.

iii) *Other price risk*

Other price risk refers to the risk that the fair value of financial instruments or future cash flows associated 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 and a fixed income bond index fund. 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, 2012

8. COMMITMENTS

The Association has entered into long-term lease agreements expiring on January 31, 2016 and September 30, 2017 which require aggregate lease payments of \$262,685 for the rental of premises and office equipment. Minimum lease payments for the next five years are as follows:

| | | |
|------|----|--------|
| 2013 | \$ | 81,962 |
| 2014 | | 81,962 |
| 2015 | | 81,962 |
| 2016 | | 12,313 |
| 2017 | | 4,486 |

9. COMPARATIVE FIGURES

Certain comparative figures have been reclassified in order to conform with the financial statement presentation adopted for the current year.