

FINANCIAL STATEMENTS
For
CANADIAN ASSOCIATION FOR LABORATORY ACCREDITATION INC.
For year ended
DECEMBER 31, 2020

CANADIAN ASSOCIATION FOR LABORATORY ACCREDITATION INC.

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2020

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INDEPENDENT AUDITOR'S REPORT

To the members of

CANADIAN ASSOCIATION FOR LABORATORY ACCREDITATION INC.*Opinion*

We have audited the financial statements of Canadian Association for Laboratory Accreditation Inc., which comprise the statement of financial position as at December 31, 2020, and the statements of operations and changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Canadian Association for Laboratory Accreditation Inc. as at December 31, 2020 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.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of Canadian Association for Laboratory Accreditation Inc. in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing Canadian Association for Laboratory Accreditation Inc.'s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate Canadian Association for Laboratory Accreditation Inc. or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Canadian Association for Laboratory Accreditation Inc.'s financial reporting process.

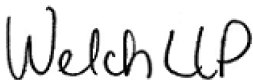
Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Canadian Association for Laboratory Accreditation Inc.'s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Canadian Association for Laboratory Accreditation Inc.'s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Canadian Association for Laboratory Accreditation Inc. to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Chartered Professional Accountants
Licensed Public Accountants

Ottawa, Ontario
April 6, 2021.

CANADIAN ASSOCIATION FOR LABORATORY ACCREDITATION INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2020

	<u>2020</u>	<u>2019</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 238,220	\$ 814,356
Short-term investments	515,612	512,535
Amounts receivable	5,361	66,698
Prepaid expenses	97,784	77,598
Due from Proficiency Testing Canada Inc. (note 3)	<u>502,952</u>	<u>-</u>
	1,359,929	1,471,187
LONG-TERM INVESTMENTS (note 4)	917,785	869,318
TANGIBLE CAPITAL ASSETS (note 5)	35,110	33,533
INTANGIBLE ASSET (note 6)	<u>619,798</u>	<u>1,807,515</u>
	<u>\$ 2,932,622</u>	<u>\$ 4,181,553</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 311,438	\$ 424,763
Government remittances payable	58,367	28,381
Deferred revenue	107,716	313,539
Deferred lease inducement	<u>52,053</u>	<u>61,517</u>
	529,574	828,200
UNRESTRICTED NET ASSETS	<u>2,403,048</u>	<u>3,353,353</u>
	<u>\$ 2,932,622</u>	<u>\$ 4,181,553</u>

Approved by the Board:

SHANE HARNISH
..... Chair

DALIBOR AMBRUS
..... Treasurer

(See accompanying notes)

CANADIAN ASSOCIATION FOR LABORATORY ACCREDITATION INC.
STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2020

	<u>2020</u>	<u>2019</u>
Revenue		
Evaluations	\$ 1,425,597	\$ 3,366,538
Memberships	183,150	160,165
Miscellaneous income	67,542	6,189
Training	<u>363,910</u>	<u>490,833</u>
	<u>2,040,199</u>	<u>4,023,725</u>
Expenses		
Advertising and promotion	82,878	65,180
Amortization of tangible capital assets	13,091	9,896
Copying and printing	6,969	10,444
Evaluations	58,576	1,181,256
Insurance	17,326	17,119
International mutual recognition arrangement	21,490	20,661
Office, IT and telecommunications	115,016	211,169
Postage and shipping	5,186	20,778
Professional fees	18,565	26,234
Rent	99,810	141,416
Salaries and benefits	1,190,311	1,515,965
Training	108,773	175,004
Travel and meetings	<u>3,332</u>	<u>122,286</u>
	<u>1,741,323</u>	<u>3,517,408</u>
Excess of revenue over expenses from operations	<u>298,876</u>	<u>506,317</u>
Other revenue		
Investment income, net of investment management fees	22,323	26,098
Gain on disposal of investments	2,999	40,137
Unrealized gain on investments	<u>29,335</u>	<u>40,199</u>
	<u>54,657</u>	<u>106,434</u>
Excess of revenue over expenses before impairment loss on intangible asset	353,533	612,751
Impairment loss on intangible asset (note 8)	<u>1,303,838</u>	<u>-</u>
Excess of revenue over expenses (expenses over revenue)	(950,305)	612,751
Net assets, beginning of year	<u>3,353,353</u>	<u>2,740,602</u>
Net assets, end of year	<u>\$ 2,403,048</u>	<u>\$ 3,353,353</u>

(See accompanying notes)

CANADIAN ASSOCIATION FOR LABORATORY ACCREDITATION INC.

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2020

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM (USED IN)		
OPERATING ACTIVITIES		
Excess of revenue over expenses (expenses over revenue)	\$ (950,305)	\$ 612,751
Non-cash items:		
Amortization of tangible capital assets	13,091	9,896
Gain on disposal of investments	(2,999)	(40,137)
Unrealized gain on investments	(29,335)	(40,199)
Impairment loss on intangible asset	1,303,838	-
Changes in working capital items		
Amounts receivable	61,337	8,098
Prepaid expenses	(20,186)	(10,935)
Accounts payable and accrued liabilities	(113,325)	4,902
Government remittances payable	29,986	3,990
Deferred revenue	(205,823)	(57,116)
Deferred lease inducement	(9,464)	(9,464)
Due from Proficiency Testing Canada Inc.	<u>(502,952)</u>	<u>-</u>
	<u>(426,137)</u>	<u>481,786</u>
INVESTING ACTIVITIES		
Purchase of investments	(637,208)	(1,353,572)
Redemption of investments	617,997	1,429,563
Acquisition of tangible capital assets	(77,302)	-
Investment in intangible asset	<u>(53,486)</u>	<u>(506,889)</u>
	<u>(149,999)</u>	<u>(430,898)</u>
INCREASE (DECREASE) IN CASH	(576,136)	50,888
CASH, BEGINNING OF YEAR	<u>814,356</u>	<u>763,468</u>
CASH, END OF YEAR	<u>\$ 238,220</u>	<u>\$ 814,356</u>

(See accompanying notes)

CANADIAN ASSOCIATION FOR LABORATORY ACCREDITATION INC.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2020

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.

CANADIAN ASSOCIATION FOR LABORATORY ACCREDITATION INC.

NOTES TO THE FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED DECEMBER 31, 2020

2. SIGNIFICANT ACCOUNTING POLICIES - Cont'd.

Amortization

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

	<u>Method</u>	<u>Rate</u>
Office equipment and furniture	Declining balance	20%
Computer equipment	Straight-line	45%

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. DUE FROM PROFICIENCY TESTING CANADA INC.

During the year, CALA's proficiency testing program spun out to become its own organization under the name of Proficiency Testing Canada Inc. (PTC). CALA and PTC are each governed by independent and separate Board of Directors. Both organizations continue to work closely together and throughout the period CALA shared resources with PTC. Shared resources include allocated salaries, rent, and administrative and IT expenses. These transactions are recorded at their exchange amount, which is the amount agreed to between the parties

The balance receivable of \$502,952 from PTC at December 31, 2020, is non-interest bearing and due on demand.

CALA is also guarantor on behalf of PTC for the due and punctual payment and performance in full of liabilities arising from PTC's agreement with Moneris Solutions Corporation, the Royal Bank of Canada and the Bank of Montreal.

CANADIAN ASSOCIATION FOR LABORATORY ACCREDITATION INC.

NOTES TO THE FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED DECEMBER 31, 2020

4. LONG-TERM INVESTMENTS

The Association's long term investments consist of the following:

	2020		2019	
	Market	Cost	Market	Cost
Equities and mutual funds	\$ 285,000	\$ 249,594	\$ 259,542	\$ 236,973
Fixed income securities	<u>632,785</u>	<u>619,396</u>	<u>609,776</u>	<u>613,855</u>
	<u>\$ 917,785</u>	<u>\$ 868,990</u>	<u>\$ 869,318</u>	<u>\$ 850,828</u>

5. TANGIBLE CAPITAL ASSETS

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

	2020			2019		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
Office equipment and furniture	\$ 95,032	\$ 68,271	\$ 26,761	\$ 95,032	\$ 63,405	\$ 31,627
Computer equipment	<u>132,712</u>	<u>124,363</u>	<u>8,349</u>	<u>118,044</u>	<u>116,138</u>	<u>1,906</u>
	<u>\$ 227,744</u>	<u>\$ 192,634</u>	<u>\$ 35,110</u>	<u>\$ 213,076</u>	<u>\$ 179,543</u>	<u>\$ 33,533</u>

6. INTANGIBLE ASSET

As of December 31, 2020, the Association has incurred costs of \$619,798 (2019 - \$1,807,515) for the development of a new software system. Since this project is not complete, these costs have not yet been amortized over its estimated useful life.

During the year, the Association incurred an impairment loss of \$1,303,838 on the development costs of the new software system.

7. 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, amounts receivable, short-term investments and balance due from Proficiency Testing Canada Inc. 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, 2020 is sufficient. The Association evaluates regularly the working capital of Proficiency Testing Canada Inc. to ensure that it has the capacity to pay its debt.

CANADIAN ASSOCIATION FOR LABORATORY ACCREDITATION INC.

NOTES TO THE FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED DECEMBER 31, 2020

7. FINANCIAL INSTRUMENTS - Cont'd.

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 fulfill 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, 2020, cash includes \$7,635 (2019 - \$15,339) 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.

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.

8. COMMITMENTS

The Association has entered into a long-term lease agreement expiring in June 2026 which requires remaining aggregate lease payments of \$1,046,960 for the rental of premises. Minimum lease payments for the next five years are as follows:

2021	\$ 182,034
2022	182,244
2023	188,648
2024	195,052
2025	198,254

CANADIAN ASSOCIATION FOR LABORATORY ACCREDITATION INC.**NOTES TO THE FINANCIAL STATEMENTS - Cont'd.****YEAR ENDED DECEMBER 31, 2020****9. COVID-19 GOVERNMENT ASSISTANCE**

The Government of Canada provided wage related financial assistance to qualifying organizations. The amount of wage subsidy attributable to the Association's December 31, 2020 year-end under the Temporary Wage Subsidy (TWS) program is \$19,250 and is included in salaries and benefits.

10. COVID-19

In mid-March of 2020, the Government of Canada declared a state of emergency in response to the public health concerns originating from the spread of COVID-19. Those measures included travel restrictions and social distancing requirements. This has resulted in postponing events, cancelling travels and working remotely during the year.

A high degree of uncertainty persists surrounding the full economic impact of the situation. The unpredictable nature of the spread of the virus makes it difficult to determine the length of time that the Association's operations may be impacted.