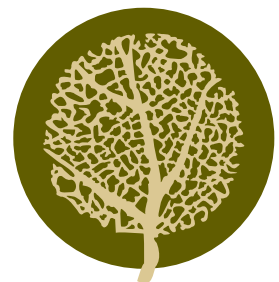




Independent Auditors' Report

To the Governors of the Institute of Naturopathic Education and Research

Financial Statements 2012



ccnm

CANADIAN COLLEGE OF
NATUROPATHIC MEDICINE

Report on the Financial Statements

We have audited the accompanying financial statements of the **Institute of Naturopathic Education and Research,**

which comprise the statement of financial position as at July 31, 2012 and the statements of revenues and expenses and fund balances 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 generally accepted accounting principles, 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 the auditors' 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 auditors 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 the **Institute of Naturopathic Education and Research** as at July 31, 2012 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Corporations Act (Ontario), we report that, in our opinion, Canadian generally accepted accounting principles have been applied on a basis consistent with that of the preceding year.

Ernst + Young LLP

Chartered Accountants
Licensed Public Accountants
Toronto, Canada,
January 8, 2013.

Statement of Financial Position

As of July 31	2012			2011	
	Operating Fund	Restricted Fund	Endowment Fund	Total	Total
[RESTATE - NOTE 18]					
ASSETS [note 7]					
Current					
Cash and cash equivalents	\$ 217,678	\$ 381,808	\$ 68,894	\$ 668,380	\$ 565,895
Accounts receivable					
Student fees	83,469	—	—	83,469	42,465
Other	360,980	5,600	—	366,580	174,454
Due from related parties [note 3]	182,261	—	—	182,261	151,337
Inventory	96,985	—	—	96,985	41,961
Prepaid expenses	301,395	24,286	—	325,681	355,805
TOTAL CURRENT ASSETS	1,242,768	411,694	68,894	1,723,356	1,331,917
Long-term prepaid expenses	25,881	—	—	25,881	7,866
Capital assets, net [note 4]	12,884,249	—	—	12,884,249	12,659,948
	14,152,898	411,694	68,894	14,633,486	13,999,731
LIABILITIES AND FUND BALANCES					
Current					
Bank indebtedness [note 7]	1,700,000	—	—	1,700,000	950,000
Accounts payable and accrued liabilities	817,764	—	—	817,764	544,477
Interfund loan [note 6]	(379)	(1,453)	1,832	—	—
Current portion of long-term debt [note 7]	363,302	—	—	363,302	345,905
Deferred revenue	1,059,150	—	—	1,059,150	1,006,702
TOTAL CURRENT LIABILITIES	3,939,837	(1,453)	1,832	3,940,216	2,847,084
Long-term debt [note 7]	36,647	—	—	36,647	399,949
TOTAL LIABILITIES	3,976,484	(1,453)	1,832	3,976,863	3,247,033
Commitments [note 13]					
Fund balances					
Operating Fund	10,176,414	—	—	10,176,414	10,288,463
Restricted Fund [note 8]	—	413,147	—	413,147	397,173
Endowment Fund [note 9]	—	—	67,062	67,062	67,062
TOTAL FUND BALANCES	10,176,414	413,147	67,062	10,656,623	10,752,698
	14,152,898	411,694	68,894	14,633,486	13,999,731

SEE ACCOMPANYING NOTES

On behalf of the Board:

GOVERNOR

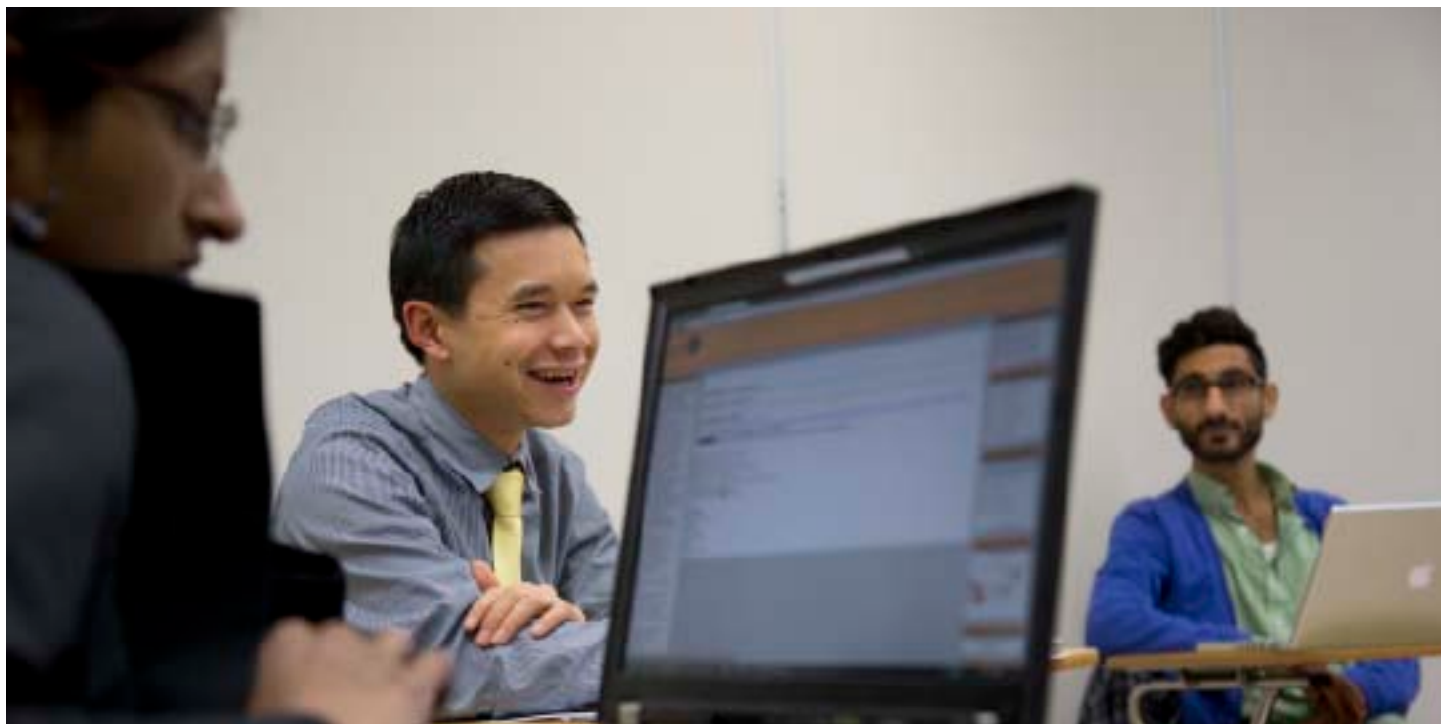
GOVERNOR

Statement of revenues and expenses and fund balances

Year ended July 31	Operating Fund		Restricted Fund		Endowment Fund		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
REVENUES	[restated - note 18]							
Tuition	\$ 9,810,810	\$ 9,977,208	\$ —	\$ —	\$ —	\$ —	\$ 9,810,810	\$ 9,977,208
Clinic	1,118,783	834,656	—	—	—	—	1,118,783	834,656
Dispensary	132,932	89,423	—	—	—	—	132,932	89,423
Property	1,168,385	1,066,902	—	—	—	—	1,168,385	1,066,902
Membership fees	19,475	13,325	—	—	—	—	19,475	13,325
Student and application fees	3,230	28,800	—	—	—	—	3,230	28,800
General interest and continuing education	151,521	151,601	—	—	—	—	151,521	151,601
Donations and sponsorships [note 10]	214,165	132,948	415,484	205,031	—	—	629,649	337,979
Interest	40,221	26,157	961	588	—	—	41,182	26,745
Research	214,274	376,110	270,976	200,000	—	—	485,250	576,110
Other [note 11]	258,158	275,368	—	24	—	—	258,158	275,392
	13,131,954	12,972,498	687,421	405,643	—	—	13,819,375	13,378,141
EXPENSES								
Salaries and employee benefits	9,167,327	9,102,752	287,973	10,751	—	—	9,455,300	9,113,503
Rent	93,386	40,646	34,540	3,598	—	—	127,926	44,244
Office and general	989,650	907,250	84,608	63,503	—	—	1,074,258	970,753
Travel, promotion and advertising	526,540	519,825	33,609	1,116	—	—	560,149	520,941
Research	315,308	526,546	96,480	12,284	—	—	411,788	538,830
Books and teaching supplies	454,831	403,334	6,650	11,567	—	—	461,481	414,901
Professional services	100,496	98,407	—	—	—	—	100,496	98,407
Bursaries and awards	45,684	59,078	81,335	87,993	—	—	127,019	147,071
Graduation and student events	27,824	19,492	—	—	—	—	27,824	19,492
General maintenance	661,154	723,757	46,252	20,089	—	—	707,406	743,846
Interest on long-term debt	42,063	48,573	—	—	—	—	42,063	48,573
Amortization	819,740	787,014	—	—	—	—	819,740	787,014
	13,244,003	13,236,674	671,447	210,901	—	—	13,915,450	13,447,575
Excess (deficiency) of revenues over expenses for the year	(112,049)	(264,176)	15,974	194,742	—	—	(96,075)	(69,434)
Fund balances, beginning of year as restated [note 18]	10,288,463	10,552,639	397,173	202,431	67,062	67,062	10,752,698	10,822,132
Fund balances, end of year	10,176,414	10,288,463	413,147	397,173	67,062	67,062	10,656,623	10,752,698

See accompanying notes

Statement of cash flows



Year ended July 31	2012			2011	
	Operating Fund	Restricted Fund	Endowment Fund	Total	Total
OPERATING ACTIVITIES					[restated - note 18]
Excess (deficiency) of revenues over expenses for the year	\$ (112,049)	\$ 15,974	\$ —	\$ (96,075)	\$ (69,434)
Add item not involving cash					
Amortization	819,740	—	—	819,740	787,014
	707,691	15,974	—	723,665	717,580
Net change in non-cash working capital balances [note 14]	52,250	(34,324)	840	18,766	(457,302)
Cash provided by (used in) operating activities	759,941	(18,350)	840	742,431	260,278
INVESTING ACTIVITIES					
Acquisition of capital assets	(1,044,041)	—	—	(1,044,041)	(721,224)
Cash used in investing activities	(1,044,041)	—	—	(1,044,041)	(721,224)
FINANCING ACTIVITIES					
Proceeds from credit facility	750,000	—	—	750,000	550,000
Repayment of long-term debt	(345,905)	—	—	(345,905)	(329,600)
Cash provided by financing activities	404,095	—	—	404,095	220,400
Net increase (decrease) in cash during the year	119,995	(18,350)	840	102,485	(240,546)
Cash and cash equivalents, beginning of year	97,683	400,158	68,054	565,895	806,441
Cash and cash equivalents, end of year	217,678	381,808	68,894	668,380	565,895

See accompanying notes

Notes to Financial Statements

July 31, 2012

I. NATURE OF THE ORGANIZATION

The Institute of Naturopathic Education and Research [the “Institute”] is incorporated under the *Corporations Act (Ontario)*. The Institute operates The Canadian College of Naturopathic Medicine, the Robert Schad Naturopathic Clinic and the Ottawa Integrative Cancer Centre [“OICC”]. The Institute is registered as a charitable organization under the *Income Tax Act (Canada)* and, as such, is not subject to income taxes.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies followed by the Institute are as follows:

FUND ACCOUNTING

In order to ensure adherence to the limitations and restrictions placed on the use of resources available to the Institute, the accounts of the Institute are maintained in accordance with the principles of fund accounting. Accordingly, resources are classified for accounting and reporting purposes into funds. These funds are held in accordance with the objectives specified by the donors or in accordance with the directives issued by the Board of Governors [the “Board”]. Transfers between the funds are made when it is considered appropriate and authorized by the Board. To meet these objectives of financial reporting and stewardship over assets, certain interfund transfers are necessary to ensure the appropriate allocation of assets and liabilities to the respective funds. These interfund transfers are recorded in the statement of revenues and expenses and fund balances.

For financial reporting purposes, the accounts have been classified into the following funds:

- a. The Operating Fund reports resources related to the delivery and administration of the Institute’s academic and clinical programs.
- b. The Restricted Fund reports resources that are to be used for specific purposes as specified by the donors or by the Board.
- c. The Endowment Fund reports resources where either external or internal restrictions require that the principal must be maintained permanently.

REVENUE RECOGNITION

The Institute follows the restricted fund method of accounting for contributions, which include donations and research grants. Externally restricted contributions for specific purposes are recognized as revenue of the Restricted Fund unless the capital is to be maintained permanently, in which case the contributions are recognized as revenue of the Endowment Fund. Unrestricted contributions are recognized as revenue of the Operating Fund when received or receivable if the amounts to be received can be reasonably measured and ultimate collection is reasonably assured.

Tuition and general interest and continuing education revenue is deferred and recognized as revenue of the Operating Fund over the academic year.

Clinic revenue is recognized as revenue when clinic services are provided.

Dispensary revenue is recognized as revenue when goods are sold.

Property revenue is recognized as revenue on a monthly basis as services are provided.

Membership fees revenue is deferred and recognized as revenue of the Operating Fund over the membership term.

Student and application fees, which are non-refundable, are recognized as revenue when cash is received.

Sponsorships revenue is recognized as revenue in the year the sponsored event occurs.

Investment income earned on the Endowment Fund assets is recognized in the Restricted Fund in accordance with external restrictions.



CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand, balances with banks and highly liquid short-term investments with original maturities of less than 90 days.

FINANCIAL INSTRUMENTS

The Institute has chosen to apply the Canadian Institute of Chartered Accountants' ["CICA"] Handbook Section 3861, *Financial Instruments - Disclosure and Presentation*, in place of CICA 3862, *Financial Instruments - Disclosures*, and CICA 3863, *Financial Instruments - Presentation*.

CAPITAL ASSETS

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair market value at the date of contribution. Capital assets are amortized using the straight line method at the following annual rates:

Building	2.5%
Building improvements [10 years]	10%
Building improvements [20 years]	5%
Leasehold improvements [4 years]	24.7%
Furniture and fixtures	10%
Teaching equipment	20%
Office equipment	20%
Computer equipment [4 years]	25%
Computer equipment [8 years]	12.5%
Computer network equipment	10%

The Institute does not amortize artwork or capitalized costs related to its corporate identity.

The Institute allocates salary and benefit costs related to certain personnel who work directly on managing capital projects to capital assets. No amortization is recorded until construction is substantially complete and the assets are ready for productive use.

DONATIONS-IN-KIND

Donations-in-kind of materials and inventory are recorded at fair market value when such value can be reasonably determined.

INVENTORY

Inventory is valued at the lower of cost, determined on a weighted average cost formula basis, and net realizable value.

USE OF ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

VOLUNTEER SERVICES

The work of the Institute is dependent on the volunteer services of many individuals. The nature or amount of volunteer services is not reflected in these financial statements because of the difficulty in determining their value.

ALLOCATION OF EXPENSES

Expenses are recorded in the statement of revenues and expenses and fund balances by purpose, except for expenses related to research.

- Research expenses include direct costs related to research activities that are covered by research grants. There are no general overhead expenses recorded in the restricted research expenses.

FUTURE ACCOUNTING POLICY CHANGES

The Accounting Standards Board of the CICA has issued Part III of the *CICA Handbook* that sets out the accounting standards for not-for-profit organizations that are effective for fiscal years beginning on or after January 1, 2012. The Institute is currently evaluating the impact of these standards.

3. DUE FROM RELATED PARTIES

a. CCNM Enterprises [“Enterprises”] was incorporated under the *Canada Corporations Act* without share capital and began its operations on October 1, 2003. Enterprises operates as a not-for-profit organization and, as such, is exempt from income taxes. Enterprises was established to promote the dissemination of research and development related to the fields of naturopathy and natural health sciences and to promote writing, printing, publication and distribution of literature related to naturopathic medicine and other health sciences.

In addition, Enterprises is the sole shareholder of CCNM Press Inc. [“Press”], which was incorporated under the *Canada Corporations Act* and began its operations on September 15, 2003 and is a taxable corporation. Press is engaged in the publishing and distribution of literature related to naturopathy and natural health sciences.

Transactions with Enterprises and Press, both of which are entities subject to significant influence, during the year are recorded at the agreed upon exchange amounts. The details of transactions between the Institute and these related parties are set out below.

b. On September 15, 2003, the Institute entered into an agreement with Press to provide funding as requested by Press from time to time. As at July 31, the carrying amounts owing by Enterprises and Press recorded in the accounts of the Institute are as follows:

	2012	2011
Due from Enterprises	\$ 101,057	\$ 93,099
Due from Press	694,541	659,254
Allowance for doubtful accounts	(613,337)	(601,016)
	<u>182,261</u>	<u>151,337</u>

The amount due from Enterprises represents a loan outstanding, which is due on demand, unsecured, non-interest bearing, and has no specific terms of repayment.

The amount due from Press bears interest at the bank's prime rate and has no specific terms of repayment. As at July 31, 2012 the prime rate was 3.00% [2011 - 3.00%]. Interest of \$16,980 [2011 - \$16,156] is included in interest revenue.

c. The Institute performs certain management and administrative services on behalf of Enterprises and Press and charges no fees for these services. In addition, the Institute has an agreement with Press for the receipt of certain administrative, management, and other services for a fee equal to the cost of providing these services. The Institute purchased books of \$19,190 [2011 - \$8,996] from Press which have been included in expenses.

4. CAPITAL ASSETS

Capital assets consist of the following:

	2012		
	Cost	Accumulated amortization	Net book value
Land	\$ 3,979,064	\$ —	\$ 3,979,064
Building	8,395,615	2,728,575	5,667,040
Building improvements [10 years]	2,574,187	1,265,719	1,308,468
Building improvements [20 years]	283,585	39,772	243,813
Leasehold improvements [4 years]	337,916	10,729	327,187
Furniture and fixtures	1,008,276	486,585	521,691
Teaching equipment	143,493	63,161	80,332
Office equipment	131,464	88,723	42,741
Computer equipment [4 years]	781,827	445,064	336,763
Computer equipment [8 years]	53,242	4,677	48,565
Computer network equipment	291,923	85,598	206,325
Artwork	89,300	—	89,300
Corporate identity	32,960	—	32,960
	<u>18,102,852</u>	<u>5,218,603</u>	<u>12,884,249</u>

	2011		
	Cost	Accumulated amortization	Net book value
Land	\$ 3,979,064	\$ —	\$ 3,979,064
Building	8,395,615	2,518,684	5,876,931
Building improvements [10 years]	2,461,391	1,176,364	1,285,027
Building improvements [20 years]	283,585	25,593	257,992
Furniture and fixtures	906,834	469,776	437,058
Teaching equipment	138,501	54,697	83,804
Office equipment	140,922	94,952	45,970
Computer equipment [4 years]	825,494	489,267	336,227
Computer equipment [8 years]	10,794	675	10,119
Computer network equipment	282,378	56,882	225,496
Artwork	89,300	—	89,300
Corporate identity	32,960	—	32,960
	<u>17,546,838</u>	<u>4,886,890</u>	<u>12,659,948</u>

During the year, the Institute wrote off \$488,027 of fully amortized building improvements, furniture and fixtures, teaching equipment, office equipment and computer equipment.

5. CONTINGENT ASSETS

a. The Institute is the beneficiary of a life insurance policy of \$75,000. This donation receivable has not been recorded in the accounts due to the uncertainty of the timing of its receipt.

b. The Institute is the beneficiary of a remainder trust established in 2005, currently valued at approximately \$2,915,000. This amount has not been recorded in the accounts as neither the timing of its receipt nor the measurement of the amount at the time of receipt can be reasonably ascertained.

6. INTERFUND LOAN

As at July 31, 2012, the Endowment Fund has a balance payable of \$379 [2011 - \$379] to the Operating Fund and \$1,453 [2011 - \$613] owing to the Restricted Fund.



7. DEBT

The Institute has the following credit facilities available:

- a. Revolving demand credit facility of \$3,000,000 [2011 - \$2,000,000] which bears interest at the bank's prime rate plus 0.80% [2011 - 0.35%]. As at July 31, 2012, the effective interest rate was 3.80% [2011 - 3.35%]. As at July 31, 2012, the Institute has drawn \$1,700,000 against this credit facility.
- b. Non-revolving fixed term loan, which bears interest at 4.9% per annum. The loan is repayable in monthly blended payments of \$31,240 based on an amortization period of five years, with the balance repayable on September 11, 2013. The loan is also eligible for an annual prepayment of 10% of the outstanding principal balance at the date of prepayment.

Long-term debt consists of the following:

	2012	2011
Long-term debt	\$ 399,949	\$ 745,854
Less current portion	363,302	345,905
	<u>36,647</u>	<u>399,949</u>

Principal repayments on the long-term debt are due as follows:

2013	\$ 363,302
2014	36,647
	<u>399,949</u>

All of the credit facilities are collateralized by a first ranking security interest on all personal property of the Institute, a collateral mortgage of \$6,200,000 constituting a first fixed charge on the land and building of the Institute's campus and first ranking assignment of rents and leases arising from the lands and improvements to the Institute's property. As at July 31, 2012, the carrying value of the land and building was approximately \$9,646,000 [2011 - \$9,856,000].

8. RESTRICTED FUND

The Restricted Fund balance is comprised entirely of externally restricted funds. These funds are to be used for the following restricted purposes:

	2012	2011
Ontario Integrative Cancer Centre	\$ 68,039	\$ 208,682
Research	62,755	84,890
Awards and bursaries	66,345	55,872
RSNC Campaign	76,303	7,824
Fibromyalgia Shift	66,900	—
Other	72,805	39,905
	<u>413,147</u>	<u>397,173</u>

9. ENDOWMENT FUND

The Endowment Fund consists of the following:

	2012	2011
Joyce Vanderburg Endowment	\$ 67,062	\$ 67,062

The capital of the Joyce Vanderburg Endowment must be retained permanently within the Institute. Investment income related to this endowment is recorded in the Restricted Fund.

10. DONATIONS-IN-KIND

During the year, the Institute received donations-in-kind of \$76,867 [2011 - \$31,666], which were comprised primarily of medical supplies.

II. OTHER REVENUES

Other revenues include income from various sources including NSF charges, laundry revenue, clinical services provided to other organizations, photocopy revenue and other miscellaneous charges.

12. OICC EXPENSE ALLOCATION

The OICC was established to improve the quality of life for those touched by cancer through clinical practice, research and education. The OICC began operations on November 1, 2011 and is funded through revenues generated by the OICC and donor.

Results for the OICC are recorded as follows:

- The Operating Fund includes revenues and expenses incurred to support the operations of all clinics run by the Institute, including the OICC.
- The Restricted Fund includes donations revenue and allocated direct expenses, as defined below, to support the operations of the OICC.

Eligible direct costs are allocated to the OICC in accordance with the terms set out in the agreement signed between the Institute and donor.

13. COMMITMENTS

- a. The future minimum annual lease payments under operating leases for a building, office equipment, property and property equipment are approximately as follows:

2013	\$ 170,000
2014	165,000
2015	159,000
2016	33,000
	<u>527,000</u>

- b. The Institute is committed to a letter of guarantee required by the Toronto Transit Commission in the amount of \$30,000 [2011 - \$30,000].

14. NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES

The net change in non-cash working capital balances consists of the following:

	2012			2011	
	Operating Fund	Restricted Fund	Endowment Fund	Total	Total
Accounts receivable	\$ (258,454)	\$ (5,600)	\$ —	\$ (264,054)	\$ (41,413)
Inventory	(55,024)	—	—	(55,024)	(2,095)
Prepaid expenses	36,395	(24,286)	—	12,109	(29,557)
Accounts payable and accrued liabilities	276,885	(3,598)	—	273,287	(258,273)
Interfund loan	—	(840)	840	—	—
Deferred revenue	52,448	—	—	52,448	(125,964)
	<u>52,250</u>	<u>(34,324)</u>	<u>840</u>	<u>18,766</u>	<u>(457,302)</u>





I5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

FAIR VALUE

Due to the short period to maturity of current assets and current liabilities, the carrying values as presented in the statement of financial position are reasonable estimates of their fair values.

INTEREST RATE RISK

The Institute is subject to interest rate price risk with respect to its long-term debt and interest rate cash flow risk with respect to its operating credit facility.

CREDIT RISK

The Institute is exposed to credit risk from its amounts receivable from Press and Enterprises. Management addresses this risk by making adequate provisions in the allowance for doubtful accounts.

I6. CAPITAL MANAGEMENT

In managing capital, the Institute focuses on liquid resources available for operations. The Institute's objective is to have sufficient liquid resources to continue operating despite adverse financial events and to provide it with the flexibility to take advantage of opportunities that will advance its purposes. The need for sufficient liquid resources is considered in the preparation of an annual budget and in the monitoring of cash flows and actual operating results compared to the budget. The Institute has available a line of credit totalling \$3,000,000 that is used when sufficient cash flow is not available from operations to cover operating and capital expenditures. As at July 31, 2012, the Institute has met its objective of having sufficient liquid resources to meet its current obligations.

I7. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2012 financial statements.

I8. CORRECTION OF PRIOR ERROR

During the preparation of the financial statements for the year ended July 31, 2012, the Institute identified an error relating to the cut-off of tuition revenues. In order to more appropriately reflect how tuition revenue is earned, the Institute has made the following restatement: deferred revenue increased by \$259,323 as at July 31, 2011, revenue and excess (deficiency) of revenues over expenses for the year have decreased by \$4,258 for the year ended July 31, 2011 and the Operating Fund decreased by \$255,065 as at August 1, 2010.