

INDEPENDENT AUDITORS' REPORT

To the Governors of the Institute of Naturopathic Education and Research

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, 2011 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 qualified audit opinion.

Basis for qualified opinion

In common with many not-for-profit organizations, the Institute derives a portion of its revenue from donations, the completeness of which is not susceptible of satisfactory audit verification. Accordingly, our verification of this revenue was limited to the amounts recorded in the records of the Institute and we were unable to determine whether any adjustments for unrecorded revenue might be necessary to donations, excess (deficiency) of revenues over expenses for the year, assets and fund balances, end of year.

Qualified opinion

In our opinion, except for the possible effects of the matter described in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Institute of Naturopathic Education and Research as at July 31, 2011 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

Thornhill, Canada,
December 19, 2011.

Chartered Accountants
Licensed Public Accountants

STATEMENT OF FINANCIAL POSITION

As at July 31				2011	2010
	Operating Fund	Restricted Fund	Endowment Fund	Total	Total
ASSETS [note 7]					
Current					
Cash and cash equivalents	\$ 97,683	\$ 400,158	\$ 68,054	\$ 565,895	\$ 806,441
Accounts receivable					
Student fees	42,465	—	—	42,465	3,846
Other	174,454	—	—	174,454	205,909
Due from related parties [note 3]	151,337	—	—	151,337	117,088
Inventory	41,961	—	—	41,961	39,866
Prepaid expenses	355,805	—	—	355,805	326,799
Total current assets	863,705	400,158	68,054	1,331,917	1,499,949
Long-term prepaid expenses	7,866	—	—	7,866	7,315
Capital assets, net [note 4]	12,659,948	—	—	12,659,948	12,725,738
	13,531,519	400,158	68,054	13,999,731	14,233,002
LIABILITIES AND FUND BALANCES					
Current					
Bank indebtedness [note 7]	950,000	—	—	950,000	400,000
Accounts payable and accrued liabilities	540,879	3,598	—	544,477	802,750
Interfund loan [note 6]	(379)	(613)	992	—	—
Current portion of long-term debt [note 7]	345,905	—	—	345,905	329,609
Deferred revenue	747,379	—	—	747,379	877,601
Total current liabilities	2,583,784	2,985	992	2,587,761	2,409,960
Long-term debt [note 7]	399,949	—	—	399,949	745,845
Total liabilities	2,983,733	2,985	992	2,987,710	3,155,805
Commitments [note 12]					
Fund balances					
Operating Fund	10,547,786	—	—	10,547,786	10,807,704
Restricted Fund [note 8]	—	397,173	—	397,173	202,431
Endowment Fund [note 9]	—	—	67,062	67,062	67,062
Total fund balances	10,547,786	397,173	67,062	11,012,021	11,077,197
	13,531,519	400,158	68,054	13,999,731	14,233,002

See accompanying notes

On behalf of the Board:

GOVERNOR

GOVERNOR

STATEMENT OF REVENUES AND EXPENSES AND FUND BALANCES

Year ended July 31	2011	2010	2011	2010	2011	2010	2011	2010
	Operating Fund		Restricted Fund		Endowment Fund		Total	Total
REVENUES								
Tuition	\$ 9,981,466	\$ 9,747,961	—	—	—	—	\$ 9,981,466	\$ 9,747,961
Clinic	834,656	840,151	—	—	—	—	834,656	840,151
Dispensary	89,423	97,598	—	—	—	—	89,423	97,598
Property	1,066,902	1,052,265	—	—	—	—	1,066,902	1,052,265
Membership fees	13,325	9,750	—	—	—	—	13,325	9,750
Student and application fees	28,800	41,097	—	—	—	—	28,800	41,097
General interest and continuing education	151,601	144,551	—	—	—	—	151,601	144,551
Donations and sponsorships [note 10]	132,948	91,088	205,031	59,227	—	—	337,979	150,315
Interest	26,157	20,027	588	178	—	—	26,745	20,205
Research	376,110	283,223	200,000	99,360	—	—	576,110	382,583
Other [note 11]	275,368	271,864	24	—	—	—	275,392	271,864
	12,976,756	12,599,575	405,643	158,765	—	—	13,382,399	12,758,340
EXPENSES								
Salaries and employee benefits	9,102,752	8,580,195	10,751	—	—	—	9,113,503	8,580,195
Rent	40,646	37,007	3,598	—	—	—	44,244	37,007
Office and general	818,947	853,235	63,503	12,076	—	—	882,450	865,311
Travel, promotion and advertising	497,964	539,142	1,116	819	—	—	499,080	539,961
Clinic	228,564	219,805	—	—	—	—	228,564	219,805
Research	526,546	462,181	12,284	30,823	—	—	538,830	493,004
Books and teaching supplies	311,532	301,363	11,567	4,018	—	—	323,099	305,381
Professional services	98,407	76,643	—	—	—	—	98,407	76,643
Bursaries and awards	59,078	39,733	87,993	46,801	—	—	147,071	86,534
Graduation and student events	19,492	20,554	—	—	—	—	19,492	20,554
General maintenance	697,159	647,536	20,089	1,426	—	—	717,248	648,962
Interest on long-term debt	48,573	66,702	—	—	—	—	48,573	66,702
Amortization	787,014	748,187	—	—	—	—	787,014	748,187
	13,236,674	12,592,283	210,901	95,963	—	—	13,447,575	12,688,246
Excess (deficiency) of revenues over expenses for the year	(259,918)	7,292	194,742	62,802	—	—	(65,176)	70,094
Fund balances, beginning of year	10,807,704	10,800,412	202,431	139,629	67,062	67,062	11,077,197	11,007,103
Fund balances, end of year	\$ 10,547,786	\$ 10,807,704	397,173	202,431	\$ 67,062	\$ 67,062	11,012,021	\$ 11,077,197

See accompanying notes

STATEMENT OF CASH FLOWS

Year ended July 31				2011	2010
	Operating Fund	Restricted Fund	Endowment Fund	Total	Total
OPERATING ACTIVITIES					
Excess (deficiency) of revenues over expenses	\$ (259,918)	\$ 194,742	\$ —	\$ (65,176)	\$ 70,094
Add item not involving cash	787,014	—	—	787,014	748,187
Amortization	527,096	194,742	—	721,838	818,281
Net change in non-cash working capital balances [note 13]	(474,056)	11,992	504	(461,560)	336,891
Cash provided by (used in) operating activities	53,040	206,734	504	260,278	1,155,172
INVESTING ACTIVITIES					
Acquisition of capital assets	(721,224)	—	—	(721,224)	(1,031,513)
Cash used in investing activities	(721,224)	—	—	(721,224)	(1,031,513)
FINANCING ACTIVITIES					
Proceeds from credit facility	550,000	—	—	550,000	400,000
Repayment of long-term debt	(329,600)	—	—	(329,600)	(461,190)
Cash provided by (used in) financing activities	220,400	—	—	220,400	(61,190)
Net increase (decrease) in cash during the year	(447,784)	206,734	504	(240,546)	62,469
Cash and cash equivalents beginning of year	545,467	193,424	67,550	806,441	743,972
Cash and cash equivalents, end of year	97,683	400,158	68,054	565,895	806,441

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

1. 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 and the Robert

Schad Naturopathic Clinic. 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 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%
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, with an option to early-adopt. 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:

	2011	2010
Due from Enterprises	\$ 93,099	\$ 85,343
Due from Press	659,254	595,761
Allowance for doubtful accounts	(601,016)	(564,016)
	\$ 151,337	\$ 117,088

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, 2011, the prime rate was 3.00% [2010 - 2.75%]. Interest of \$16,156 [2010 - \$11,262] 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 \$8,996 [2010 - \$20,150] from Press which have been included in expenses.

4. CAPITAL ASSETS

Capital assets consist of the following:

	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
	\$ 17,546,838	4,886,890	\$ 12,659,948

	2010		
	Cost	Accumulated amortization	Net book value
Land	\$ 3,979,064	—	\$ 3,979,064
Building	8,395,615	2,308,794	6,086,821
Building improvements [10 years]	2,325,613	1,092,806	1,232,807
Building improvements [20 years]	228,277	11,414	216,863
Furniture and fixtures	946,260	505,764	440,496
Teaching equipment	93,480	59,542	33,938
Office equipment	136,831	82,577	54,254
Computer equipment [4 years]	818,071	432,866	385,205
Computer network equipment	206,470	32,440	174,030
Artwork	89,300	—	89,300
Corporate identity	32,960	—	32,960
	\$ 17,251,941	4,526,203	\$ 12,725,738

During the year, the Institute wrote off \$426,327 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 \$2,946,000. 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, 2011, the Endowment Fund has a balance payable of \$379 [2010 - \$379] to the Operating Fund and \$613 [2010 - \$109] owing to the Restricted Fund.

7. DEBT

The Institute has the following credit facilities available:

[a] Revolving demand credit facility of \$2,000,000 which bears interest at the bank's prime rate plus 0.35% [2010 - prime rate]. As at July 31, 2011, the effective interest rate was 3.35% [2010 - 2.75%]. As at July 31, 2011, the Institute had drawn \$950,000 against this credit facility. This amount was repaid on September 21, 2011.

[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:

	2011	2010
Long-term debt	\$ 745,854	\$ 1,075,454
Less current portion	345,905	329,609
	\$ 399,949	\$ 745,845

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

2012	\$ 345,905
2013	363,315
2014	36,634
	\$ 745,854

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, 2011, the carrying value of the land and building was approximately \$9,856,000 [2010 - \$10,065,000].

8. RESTRICTED FUND

The Restricted Fund balance of \$397,173 [2010 - \$202,431] is comprised entirely of externally restricted funds. These funds are to be used for the following restricted purposes:

	2011	2010
Ontario Integrative Cancer Centre	\$ 208,682	\$ 3,378
Research	84,890	97,173
Awards and bursaries	55,872	60,891
Other	47,729	40,989
	\$ 397,173	\$ 202,431

9. ENDOWMENT FUND

The Endowment Fund consists of the following:

	2011	2010
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 \$31,666 [2010 - \$23,976], which were comprised primarily of inventory, software and medical information computer discs.

11. 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. COMMITMENTS

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

2012	\$ 215,000
2013	158,000
2014	152,000
2015	155,000
2016	33,000
	\$ 713,000

[b] The Institute is committed to a letter of guarantee required by the Toronto Transit Commission in the amount of \$30,000 [2010 - \$30,000].

13. NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES

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

				2011	2010
	Operating Fund	Restricted Fund	Endowment Fund	Total	Total
Accounts receivable	\$ (41,413)	\$ —	\$ —	\$ (41,413)	\$ (69,176)
Inventory	(2,095)	—	—	(2,095)	1,605
Prepaid expenses	(38,755)	9,198	—	(29,557)	27,321
Accounts payable and accrued liabilities	(261,571)	3,298	—	(258,273)	245,930
Interfund loan	—	(504)	504	—	—
Deferred revenue	(130,222)	—	—	(130,222)	131,211
	\$ (474,056)	\$ 11,992	\$ 504	\$ (461,560)	\$ 336,891

14. 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.

15. 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 \$2,000,000 that is used when sufficient cash flow is not available from operations to cover operating and capital expenditures. As at July 31, 2011, the Institute has met its objective of having sufficient liquid resources to meet its current obligations.

16. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2011 financial statements.