

# 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, 2017, and the statements of operations, 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.

#### 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, 2017, 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.

### REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the *Corporations Act* (Ontario), we report that, in our opinion, Canadian accounting standards for not-for-profit organizations have been applied on a basis consistent with that of the preceding year.

The logo for Ernst & Young LLP, featuring the company name in a stylized, handwritten-style font.

Toronto, Canada  
November 26, 2017

Chartered Professional Accountants  
Licensed Public Accountants

# STATEMENT OF FINANCIAL POSITION

As at July 31

	2017	2016
	\$	\$
<b>ASSETS</b> [note 5]		
<b>Current</b>		
Cash and cash equivalents	1,095,882	530,660
Accounts receivable [notes 10, 12 and 14]	856,510	894,597
Inventory	73,963	79,590
Prepaid expenses	257,067	239,835
<b>Total current assets</b>	<b>2,283,422</b>	<b>1,744,682</b>
Long-term prepaid expenses	5,590	12,641
Capital assets, net [note 3]	37,017,783	37,069,558
	<b>39,306,795</b>	<b>38,826,881</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current</b>		
Bank indebtedness [note 5]	1,470,000	1,550,000
Accounts payable and accrued liabilities [note 15]	1,440,712	1,162,860
Deferred revenue	875,615	933,682
Deferred contributions [note 6]	1,298,621	1,111,813
<b>Total current liabilities</b>	<b>5,084,948</b>	<b>4,758,355</b>
Commitments and contingencies [notes 4 and 11]		
<b>Net assets</b>		
Unrestricted	34,154,785	34,001,464
Endowment [note 7]	67,062	67,062
<b>Total net assets</b>	<b>34,221,847</b>	<b>34,068,526</b>
	<b>39,306,795</b>	<b>38,826,881</b>

See accompanying notes

On behalf of the Board:



Colleen McQuarrie  
Chair of the Board



Sameet Batavia  
Chair of the Audit Committee

# STATEMENT OF OPERATIONS

Year ended July 31

	2017	2016
	\$	\$
<b>REVENUE</b>		
Tuition	11,137,442	11,407,616
Clinic	2,313,772	2,496,519
Property	1,703,354	1,528,330
Research grants <i>[note 6]</i>	829,955	958,962
Donations and sponsorships <i>[notes 6 and 8]</i>	650,317	511,052
Other <i>[note 9]</i>	327,994	225,494
General interest and continuing education	86,161	105,019
Interest <i>[note 10[b]]</i>	20,492	34,376
	<b>17,069,487</b>	<b>17,267,368</b>
<b>EXPENSES</b>		
Salaries and employee benefits	10,376,485	11,099,723
Office and general	1,320,128	1,132,717
Research	951,620	979,025
Amortization	950,133	831,734
General maintenance	758,862	744,118
Travel, promotion and advertising	744,378	719,298
Books and teaching supplies <i>[notes 8 and 10[c]]</i>	689,163	682,807
Cost of goods sold	688,368	644,957
Rent	178,134	194,738
Professional services	105,712	102,961
Bursaries and awards	63,000	118,640
Interest	47,668	55,084
Graduation and student events	42,515	34,425
	<b>16,916,166</b>	<b>17,340,227</b>
<b>Excess (deficiency) of revenue over expenses for the year</b>		
<b>before the following</b>	<b>153,321</b>	<b>(72,859)</b>
Restructuring costs <i>[note 15]</i>	—	(350,761)
<b>Excess (deficiency) of revenue over expenses for the year</b>	<b>153,321</b>	<b>(423,620)</b>

See accompanying notes

# STATEMENT OF CHANGES IN NET ASSETS

Year ended July 31

	Unrestricted		Endowment		Total	
	2017 \$	2016 \$	2017 \$	2016 \$	2017 \$	2016 \$
<b>Balance, beginning of year</b>	<b>34,001,464</b>	34,425,084	<b>67,062</b>	67,062	<b>34,068,526</b>	34,492,146
Excess (deficiency) of revenue over expenses for the year	<b>153,321</b>	(423,620)	—	—	<b>153,321</b>	(423,620)
<b>Balance, end of year</b>	<b>34,154,785</b>	34,001,464	<b>67,062</b>	67,062	<b>34,221,847</b>	34,068,526

See accompanying notes

# STATEMENT OF CASH FLOWS

Year ended July 31

	2017 \$	2016 \$
<b>OPERATING ACTIVITIES</b>		
Excess (deficiency) of revenue over expenses for the year	153,321	(423,620)
Add item not involving cash		
Amortization	950,133	831,734
	<b>1,103,454</b>	<b>408,114</b>
Net change in non-cash working capital balances <i>[note 13]</i>	440,126	83,281
<b>Cash provided by operating activities</b>	<b>1,543,580</b>	<b>491,395</b>
<b>INVESTING ACTIVITIES</b>		
Acquisition of capital assets	(898,358)	(741,582)
<b>Cash used in investing activities</b>	<b>(898,358)</b>	<b>(741,582)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from bank indebtedness	1,970,000	2,980,000
Repayment of bank indebtedness	(2,050,000)	(2,930,000)
<b>Cash provided by (used in) financing activities</b>	<b>(80,000)</b>	<b>50,000</b>
<b>Net increase (decrease) in cash and cash equivalents during the year</b>	<b>565,222</b>	<b>(200,187)</b>
Cash and cash equivalents, beginning of year	530,660	730,847
<b>Cash and cash equivalents, end of year</b>	<b>1,095,882</b>	<b>530,660</b>

*See accompanying notes*

# NOTES TO FINANCIAL STATEMENTS

July 31, 2017

## 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, 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.

These financial statements do not include the assets, liabilities or operations of Ottawa Integrative Cancer Centre Foundation [the “Foundation”], a controlled not-for-profit entity [note 12] or the financial activities of the following entities in which the Institute has significant influence [note 10]: CCNM Enterprises [“Enterprises”] and CCNM Press Inc. [“Press”].

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Part III of the *CPA Canada Handbook – Accounting*, which sets out generally accepted accounting principles for not-for-profit organizations in Canada and includes the significant accounting policies summarized below.

### Revenue recognition

The Institute follows the deferral method of accounting for contributions, which include research grants, bequests and other donations. Grants and bequests are recorded when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Other donations are recorded when received, since pledges are not legally enforceable claims. Unrestricted contributions are recognized as revenue when initially recorded in the accounts. Externally restricted contributions, except endowment contributions, are deferred when initially recorded in the accounts and recognized as revenue in the year in which the related expenses are recognized. Externally restricted endowment contributions are recognized as direct increases in net assets when recorded in the accounts.

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

Clinic revenue is recognized as revenue when clinic services are provided and when goods are sold.

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

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

### 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 from the date of purchase.

### Inventory

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

### Capital assets

Purchased tangible and intangible capital assets are recorded at acquisition cost. Contributed tangible and intangible capital assets are recorded at fair value at the date of contribution. Tangible and intangible capital assets are amortized using the straight line method over the estimated useful lives of the assets as follows:

#### Tangible

Building	40 years
Building improvements	10 – 20 years
Leasehold improvements	term of lease
Furniture and fixtures	10 years
Equipment	4 – 10 years

#### Intangible

Computer software	4 – 10 years
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Artwork classified as tangible assets is considered to have permanent value and is not amortized.

## NOTES TO FINANCIAL STATEMENTS

July 31, 2017

The Institute does not amortize capitalized costs related to its corporate identity classified as intangible assets as there is not a predetermined useful life to the asset for which costs could be amortized over.

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.

### Employee future benefits

Contributions to the Institute's defined contribution pension plan are expensed on an accrual basis.

## 3. CAPITAL ASSETS

Capital assets consist of the following:

### Tangible

Land [note 5]  
Building [note 5]  
Building improvements  
Furniture and fixtures  
Equipment  
Artwork

### Intangible

Computer software  
Corporate identity

### Donations-in-kind

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

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 operations 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 research expenses.

	2017		
	Cost	Accumulated	Net book
	\$	amortization	value
	\$	\$	\$
	29,000,000	—	29,000,000
	8,395,615	3,778,027	4,617,588
	3,498,079	1,909,796	1,588,283
	1,181,612	547,345	634,267
	1,304,013	603,690	700,323
	89,300	—	89,300
	43,468,619	6,838,858	36,629,761
	593,791	238,729	355,062
	32,960	—	32,960
	44,095,370	7,077,587	37,017,783

## NOTES TO FINANCIAL STATEMENTS

July 31, 2017

	2016		
	Cost \$	Accumulated amortization \$	Net book value \$
<b>Tangible</b>			
Land [note 5]	29,000,000	—	29,000,000
Building [note 5]	8,395,615	3,568,136	4,827,479
Building improvements	3,531,677	1,860,856	1,670,821
Leasehold improvements	57,817	57,817	—
Furniture and fixtures	1,111,399	473,135	638,264
Equipment	1,182,316	690,887	491,429
Artwork	89,300	—	89,300
	43,368,124	6,650,831	36,717,293
<b>Intangible</b>			
Computer software	449,901	130,596	319,305
Corporate identity	32,960	—	32,960
	43,850,985	6,781,427	37,069,558

During the year, the Institute wrote off \$653,973 [2016 – \$798,532] of fully amortized capital assets.

### 4. 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 \$3,386,000. 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.

### 5. DEBT

The Institute has a revolving demand credit facility available of \$3,000,000 [2016 – \$3,000,000], which bears interest at the bank's prime rate of 2.95% [2016 – 2.70%] plus 0.80% [2016 – 0.80%]. As at July 31, 2017, the effective interest rate was 3.75% [2016 – 3.50%]. As at July 31, 2017, the Institute has drawn \$1,470,000 [2016 – \$1,550,000] against this credit facility.

The credit facility is 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, 2017, the carrying value of the land and building was \$33,617,588 [2016 – \$33,827,479].



## NOTES TO FINANCIAL STATEMENTS

July 31, 2017

### 6. DEFERRED CONTRIBUTIONS

Deferred contributions represent unspent resources externally restricted for program expenses in future years. Changes in the deferred contributions balance are as follows:

	2017	2016
	\$	\$
Balance, beginning of year	1,111,813	757,658
Amounts received [note 7]	1,147,531	1,609,618
Recognized as revenue	(960,723)	(1,255,463)
<b>Balance, end of year</b>	<b>1,298,621</b>	<b>1,111,813</b>

The deferred contributions are held for the following purposes:

	2017	2016
	\$	\$
Research	511,654	643,841
Integrative Cancer Centre	319,959	250,000
Ottawa Integrative Cancer Centre	170,073	76,206
Awards and bursaries	132,057	115,776
Mental Health Initiative	87,197	—
Other	77,681	25,990
<b>1,298,621</b>	<b>1,111,813</b>	

### 7. ENDOWMENT NET ASSETS

Endowment net assets consist of the Joyce Vanderburg Endowment, the capital of which must be retained permanently within the Institute. Interest income of \$541 [2016 – \$550] related to this endowment was recorded in deferred contributions [note 6].

### 8. DONATIONS-IN-KIND

During the year, the Institute received donations-in-kind of \$75,400 [2016 – \$88,040], which were comprised primarily of medical supplies.

### 9. OTHER REVENUE

Other revenue includes income from various sources including membership fees, student and application fees, non-sufficient funds charges, laundry revenue, clinical services provided to other organizations, photocopy revenue and other miscellaneous charges.

### 10. CCNM ENTERPRISES AND CCNM PRESS INC.

[a] 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 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 during the year with Enterprises and Press, both of which are entities subject to significant influence, 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. The carrying amounts owing by Enterprises and Press recorded in the accounts of the Institute are as follows:

	2017	2016
	\$	\$
Due from Enterprises	105,083	105,083
Due from Press	789,792	767,783
Allowance for doubtful accounts	(672,151)	(662,151)
<b>222,724</b>	<b>210,715</b>	

## NOTES TO FINANCIAL STATEMENTS

July 31, 2017

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, 2017, the prime rate was 2.95% [2016 – 2.70%]. Interest of \$15,867 [2016 – \$15,722] 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 totalling \$7,032 [2016 – \$18,564] from Press which have been included in books and teaching supplies expenses in the statement of operations.

### 11. COMMITMENTS AND CONTINGENCIES

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

	\$
2018	122,276
2019	74,573
2020	72,372
2021	11,562
2022	2,428
	<u>283,211</u>

[b] The Institute is committed to a letter of guarantee required by the Toronto Transit Commission in the amount of \$30,000 and a standby letter of credit required by the Post-Secondary Education Quality Assessment Board in the amount of \$1,500,000.

[c] In the normal course of operations, the Institute is subject to claims or potential claims. Management records its best estimate of the potential liability related to these claims where potential liability is likely and able to be estimated. In other cases, the ultimate outcome of the claims cannot be determined at this time. Any additional losses related to claims would be recorded in the year during which the amount of the liability is able to be estimated or adjustments to the amount recorded are determined to be required.

### 12. OTTAWA INTEGRATIVE CANCER CENTRE FOUNDATION

[a] The Foundation is a controlled corporation incorporated without share capital under the laws of Canada on September 10, 2015. The Foundation's purpose is to foster and support cancer focused clinical and research activities of the Institute. The Foundation is a not-for-profit organization and as such, is exempt from income taxes. The Foundation was registered for charitable status effective October 5, 2016.

The Foundation, consistent with the Institute, prepares its financial statements in accordance with Part III of the *CPA Canada Handbook – Accounting*, which sets out generally accepted accounting principles for not-for-profit organizations in Canada.

[b] The summarized financial statements as at and for the year ended December 31, 2016 of the Foundation are as follows:

	2016
	\$
Total assets	70,046
Total liabilities	(2,000)
	<u>68,046</u>
Unrestricted net assets	<u>68,046</u>
	2016
	\$
Total revenue	75,623
Total expenses	(7,577)
Excess of revenue over expenses for the year	<u>68,046</u>

## NOTES TO FINANCIAL STATEMENTS

July 31, 2017

[c] Advances to the Foundation classified as current within accounts receivable of \$2,365 are due on demand, unsecured, non-interest bearing and have no specific terms of repayment.

[d] The Institute provides management and administrative services at no cost to the Foundation.

### 13. NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES

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

	2017 \$	2016 \$
Accounts receivable	38,087	(98,825)
Inventory	5,627	(22,957)
Prepaid expenses	(10,181)	71,714
Accounts payable and accrued liabilities	277,852	115,403
Deferred revenue	(58,067)	(336,209)
Deferred contributions	186,808	354,155
	<u>440,126</u>	<u>83,281</u>

### 14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Institute is exposed to a variety of financial risks by virtue of its activities: credit risk, market risk [including interest rate risk] and liquidity risk. Risk management is carried out by management. Management identifies and evaluates financial risks and is responsible for establishing controls and procedures to ensure that financial risks are mitigated in accordance with approved policies.

#### Credit risk

The Institute is exposed to credit risk in connection with its accounts receivable because of the risk that one party to the financial instrument may cause a financial loss for the other party by failing to discharge an obligation. Accounts receivable are recorded net of an allowance for doubtful accounts of \$831,688 [2016 – \$774,740].

#### Interest rate risk

The Institute is exposed to interest rate risk with respect to any borrowings on its line of credit as the interest rate is linked to the bank's prime rate, which changes from time to time.

#### Liquidity risk

The Institute is exposed to the risk that it will encounter difficulty in meeting obligations in connection with its financial liabilities.

### 15. RESTRUCTURING COSTS

During the year ended July 31, 2016, the Institute took steps to streamline its operations. As a result, the Institute recorded restructuring expenses of \$350,761 related to severance and special termination benefits incurred during the year ended July 31, 2016. As at July 31, 2017, an unpaid amount of \$2,600 [2016 – \$55,131] is included in accounts payable and accrued liabilities.

### 16. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2017 financial statements.



**ccnm**  
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