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Institute of Naturopathic
Education and Research

To the Governors of the
Institute of Naturopathic Education and Research

R F S

We have audited the accompanying nancial statements of the I N E R , which comprise the statements of nancial position as at July 31, 2013 and 2012, and August 1, 2011, and the statements of revenues and expenses and changes in fund balances and cash ows the years ended July 31, 2013 and 2012, and a summary of signi cant accounting policies and other explanat information.

M ’

Management is responsible for the preparation and fair presentation of these nancial statements in accordance with Canadian accounting standards for not-for-pro t organizations, and for such internal control as management determines is necessary to enable the preparation of nancial statements that are free from material misstatement, whether due to fraud or error.

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Our responsibility is to express an opinion on these nancial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. ose standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the nancial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the nancial statements. e procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the nancial 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 nancial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the e ectiveness 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 nancial statements.

We believe that the audit evidence we have obtained in our audits is su cient and appropriate to provide a basis for our audit opinion.

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In our opinion, the nancial statements present fairly, in all material respects, the nancial position of the Institute of Naturopathic Education and Research as at July 31, 2013 and 2012, and August 1, 2011 and the results of its operations and its cash ows for the years ended July 31, 2013 and 2012 in accordance with Canadian accounting standards for not-for-pro t organizations.

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

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants
Toronto, Canada
November 18, 2013.

Years ended July 31	2SHUDWLQJ)XQG		5HVWULFWHG)XQG		(QGRZPHQW	7RWDO
REVENUES						
Tuition	$9,810,810	$—	$—	$—	$—	$9,810,810
Clinic	1,118,783	—	—	—	—	1,118,783
Dispensary	132,932	—	—	—	—	132,932
Property	1,168,385	—	—	—	—	1,168,385
Membership fees	19,475	—	—	—	—	19,475
Student and application fees	3,230	—	—	—	—	3,230
General interest and continuing education	151,521	—	—	—	—	151,521
Donations and sponsorships [note 10]	214,165		415,484	—	—	629,649
Interest	40,221		961	—	—	41,182
Research	214,274		270,976	—	—	485,250
Other [note 11]	258,158	—	—	—	—	258,158
	13,131,954		687,421	—	—	13,819,375
(;3(16(6						
6DODULHV DQG HPSOR\HH EHQHžWV	9,167,327		287,973	—	—	9,455,300
Rent	93,386		34,540	—	—	127,926
2IžFH DQG JHQHUDO	989,650		84,608	—	—	1,074,258
Travel, promotion and advertising	526,540		33,609	—	—	560,149
Research	315,308		96,480	—	—	411,788
Books and teaching supplies	454,831		6,650	—	—	461,481
Professional services	100,496	—	—	—	—	100,496
Bursaries and awards	45,684		81,335	—	—	127,019
Graduation and student events	27,824	—	—	—	—	27,824
General maintenance	661,154		46,252	—	—	707,406
Interest on long-term debt	42,063	—	—	—	—	42,063
Amortization	819,740	—	—	—	—	819,740
	13,244,003		671,447	—	—	13,915,450
([FHVV GHžFLHQF\ RI UHYHQXHV RYHU H[SHQVHV IRU WKH \HDU	(112,049)		15,974	—	—	(96,075)
Fund balances, beginning of year	35,309,399		397,173		67,062	35,773,634
)XQG EDODQFHV HQG RI \HDU	35,197,350		413,147		67,062	35,677,559

See accompanying notes

Year ended July 31				
	2SHUDWLQJ)XQG	5HVWULFWHG)XQG	7RWDO (QGRZPHQW	
23(5$7,1* $&7,9,7,(6				
([FHVV GHžFLHQF\ RI UHYHQXHV RYHU H[SHQVHV IRU WKH \HDU			$(96,075)	
Add item not involving cash				
Amortization of capital assets	—	—	819,740	ôI

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

. S S A P F -T A A S N - -P O

A. S

ese nancial statements are prepared in accordance with Part III of the Canadian Institute of Chartered Accountants' ["CICA"] Handbook – Accounting, which sets out generally accepted accounting principles for not-for-pro t organizations in Canada and includes the signi cant accounting policies summarized below.

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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 classi ed for accounting and reporting purposes into funds. ese funds are held in accordance with the objectives speci ed 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 nancial reporting and stewardship over assets, certain interfund transfers are necessary to ensure the appropriate allocation of assets and liabilities to the respective funds. ese interfund transfers are recorded in the statements of revenues and expenses and changes in fund balances.

For nancial reporting purposes, the accounts have been classi ed into the following funds:

a. e Operating Fund reports resources related to the delivery and administration of the Institute's academic and clinical programs.

b. e Restricted Fund reports resources that are to be used for speci c purposes as speci ed by the donors or by the Board.

c. e Endowment Fund reports resources where either external or internal restrictions require that the principal must be maintained permanently.

R

e Institute follows the restricted fund method of accounting for contributions, which include donations and research grants. Contributions are recognized when received or receivable if the amounts to be received can be reasonably measured and ultimate collection is reasonably assured. Unrestricted contributions are recognized as revenue of the Operating Fund. Externally restricted contributions for speci c 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.

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.

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

C

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.

C

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 at the following annual rates:

Tangible	
Building	2.5%
Building improvements [10 years]	10%
Building improvements [20 years]	5%
Furniture and xtures	10%
Teaching equipment	20%
O ce equipment	20%
Computer equipment [4 years]	25%
Computer equipment [8 years]	12.5%
Computer network equipment	10%
Intangible	
Computer so ware [4 years]	25%
Computer so ware [8 years]	12.5%
Computer so ware [10 years]	10%

e Institute amortizes leasehold improvements classi ed as tangible assets over the term of the lease.

e Institute does not amortize artwork classi ed as tangible assets.

e Institute does not amortize capitalized costs related to its corporate identity classi ed as intangible assets.

e Institute allocates salary and bene t 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.

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

I

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

V

e work of the Institute is dependent on the volunteer services of many individuals. e nature or amount of volunteer services is not re ected in these nancial statements because of the di culty in determining their value.

A

Expenses are recorded in the statements of revenues and expenses and changes in 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. ere are no general overhead expenses recorded in the restricted research expenses.

B. F -

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ese nancial statements are the rst nancial statements that the Institute has prepared in accordance with Part III of the CICA Handbook – Accounting, which constitutes generally accepted accounting principles for not-for-pro t organizations in Canada. In preparing its opening statement of nancial position as at August 1, 2011 [the “Transition Date”], the Institute has applied CICA 1501, First-time Adoption

e accounting policies that the Institute has used in the preparation of its August 1, 2011 opening statement of nancial position have resulted in certain adjustments to balances that were presented in the statement of nancial position prepared in accordance with Part V of the CICA Handbook – Accounting [“Previous GAAP”]. ese adjustments were recorded directly to the Institute’s net assets at the Transition Date using the transitional provisions set out in CICA 1501 and are described below. CICA 1501 provides a number of elective exemptions related to standards in Part III of the CICA Handbook. e Institute has elected to value its land at fair value.

e following table provides a reconciliation of the fund balances as at August 1, 2011 and the de ciency of revenues over expenses for the year ended July 31, 2012 as presented under Previous GAAP with those computed under GAAP:

	'HŽFLHQF\ RI UHYHQXHV RYHU H[SHQVHV IRU WKH \HDU HQGHG -XO\	)XQG EDODQFHV $XJXVW
'HŽFLHQF\ RI UHYHQXHV RYHU H[SHQVHV DQG IXQG EDODQFHV 3UHYLRXV *$$3		$10,752,698
Election to recognize land at fair value [i]	—	25,020,936
'HŽFLHQF\ RI UHYHQXHV RYHU H[SHQVHV DQG IXQG EDODQFHV *$$3		35,773,634

[i] Election to recognize land at fair value

Using an elective exemption available at the Transition Date, the Institute has measured its land at estimated fair value at the Transition Date. As at the Transition Date, the carrying amount of capital assets increased by $25 million with a corresponding increase in the Operating Fund balance.

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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-pro t organization and, as such, is exempt from income taxes. Enterprises was established to promote the dissemination of research and development related to the elds 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 signi cant in uence, during the year are

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	&RVW	$FFXPXODWHG DPRUWL]DWLRQ	1HW ERRN YDOXH
7DQJLEOH			
Land	$29,000,000	$ —	$29,000,000
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
)XUQLWXUH DQG ž[WXUHV	1,008,276	486,585	521,691
Teaching equipment	143,493	63,161	80,332
2IžFH HTXLSPHQW	131,464	88,723	42,741
Computer equipment [4 years]	506,174	273,472	232,702
Computer equipment [8 years]	41,632	2,602	39,030
Computer network equipment	229,881	77,114	152,767
Artwork	89,300	—	89,300
	42,741,523	5,036,452	37,705,071
,QWDQJLEOH			
Computer software [4 years]	275,653	171,592	104,061
Computer software [8 years]	11,610	2,075	9,535
Computer software [10 years]	62,042	8,484	53,558
Corporate identity	32,960	—	32,960
	43,123,788	5,218,603	37,905,185

	$XJXVW		
	&RVW	$FFXPXODWHG DPRUWL]DWLRQ	1HW ERRN YDOXH
7DQJLEOH			
Land	$29,000,000	$ —	$29,000,000
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
)XUQLWXUH DQG ž[WXUHV	906,834	469,776	437,058
Teaching equipment	138,501	54,697	83,804
2IžFH HTXLSPHQW	140,922	94,952	45,970
Computer equipment [4 years]	498,162	301,305	196,857
Computer network equipment	228,563	54,191	174,372
Artwork	89,300	—	89,300
	42,142,873	4,695,562	37,447,311
,QWDQJLEOH			
Computer software [4 years]	327,332	187,962	139,370
Computer software [8 years]	10,794	675	10,119
Computer software [10 years]	53,815	2,691	51,124
Corporate identity	32,960	—	32,960
	42,567,774	4,886,890	37,680,884

During the year, the Institute wrote o $461,845 [2012 - $488,027] of fully amortized building improvements, furniture and xtures, teaching equipment, o ce equipment and computer equipment.

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a. e Institute is the bene ciary of a life insurance policy of $75,000. is donation receivable has not been recorded in the accounts due to the uncertainty of the timing of its receipt.

b. e Institute is the bene ciary of a remainder trust established in 2005, currently valued at approximately $2,991,000. is 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.

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As at July 31, 2013, the Endowment Fund has a balance payable of $379 [July 31, 2012 - $379; August 1, 2011 - $379] to the Operating Fund and $2,315 [July 31, 2012 - $1,453; August 1, 2011 - $613] owing to the Restricted Fund.

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e Institute has the following credit facilities available:

a. Revolving demand credit facility of $3,000,000 [July 31, 2012 - $3,000,000; August 1, 2011 - $2,000,000], which bears interest at the bank's prime rate plus 0.80% [July 31, 2012 - 0.80%; August 1, 2011 - 0.35%]. As at July 31, 2013, the e ective interest rate was 3.80% [July 31, 2012 - 3.80%; August 1, 2011 - 3.35%]. As at July 31, 2013, the Institute has drawn $900,000 against this credit facility [July 31, 2012 - $1,700,000; August 1, 2011 - $950,000].

b. Non-revolving xed-term loan, which bears interest at 4.9% per annum. e loan is repayable in monthly blended payments of $31,240 based on an amortization period of ve years, with the balance repayable on September 11, 2013. e 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:

	- X O \	- X O \	$ X J X V W
Long-term debt		$399,949	$745,854
Less current portion		363,302	345,905
	—	36,647	399,949

	$
2014	$36,647

All of the credit facilities are collateralized by a rst ranking security interest on all personal property of the Institute, a collateral

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m 433 cm9(o)f cogeraa6.4 f1 -95d51s77 cm 0 (29O0.4I(d cC12(tC. n /GS1 0_02 2)--1.2 -1.2 Tda<30 40001>Tjr)13(32 2)-3.2 0ce

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a. e future minimum annual lease payments under operating leases for a building, o ce equipment, property and property equipment are approximately as follows:

2014	$213,000
2015	169,000
2016	39,000
2017	6,000
2018	6,000
	433,000

b. e Institute is committed to a letter of guarantee required by the Toronto Transit Commission in the amount of $30,000 [July 31, 2012 - $30,000; August 1, 2011 - $30,000].

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

	2SHUDWLQJ)XQG	5HVWULFWHG)XQG	(QGRZPHQW)XQG	7RWDO	7RWDO
Accounts receivable			—		(264,054)
Inventory		—	—		(55,024)
3UHSDLG H[SHQVHV			—		12,109
Accounts payable and accrued liabilities		—	—		273,287
Interfund loan	—			—	—
Deferred revenue		—	—		52,448
					18,766

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e Institute is exposed to various nancial risks through transactions in nancial instruments.

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e Institute is exposed to credit risk in connection with its accounts receivable because of the risk that one party to the nancial instrument may cause a nancial loss for the other party by failing to discharge an obligation.

I

e Institute is exposed to interest rate risk with respect to its long-term debt because the fair value will change as a result of changes in interest rates. e Institute will also be 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.