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, 2016, 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, 2016 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, after giving retroactive effect to the change in accounting policy as explained in note 15 to the financial statements, on a basis consistent with that of the preceding year.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
November 21, 2016

STATEMENT OF FINANCIAL POSITION

As at July 31

	2016 $	2015 $ [restated – note 15]
ASSETS *[note 5]*		
Current		
Cash and cash equivalents	**530,660**	730,847
Accounts receivable *[notes 10 and 14]*	**894,597**	795,772
Inventory	**79,590**	56,633
Prepaid expenses	**239,835**	324,190
Total current assets	**1,744,682**	1,907,442
Long-term prepaid expenses	**12,641**	—
Capital assets, net *[note 3]*	**37,069,558**	37,159,710
	38,826,881	39,067,152
LIABILITIES AND NET ASSETS		
Current		
Bank indebtedness *[note 5]*	**1,550,000**	1,500,000
Accounts payable and accrued liabilities *[note 16]*	**1,162,860**	1,047,457
Deferred revenue	**933,682**	1,269,891
Deferred contributions *[note 6]*	**1,111,813**	757,658
Total current liabilities	**4,758,355**	4,575,006
Commitments and contingencies *[notes 4 and 11]*		
Net assets		
Unrestricted	**34,001,464**	34,425,084
Endowment *[note 7]*	**67,062**	67,062
Total net assets	**34,068,526**	34,492,146
	38,826,881	39,067,152

See accompanying notes

On behalf of the Board:

Director   Director

STATEMENT OF OPERATIONS

Year ended July 31

	2016	2015
	$	$
		[restated – note 15]
REVENUE		
Tuition	**11,407,616**	11,129,803
Clinic	**2,496,519**	2,121,250
Property	**1,528,330**	1,465,669
Research grants *[note 6]*	**958,962**	857,689
Donations and sponsorships *[notes 6 and 8]*	**511,052**	337,100
Other *[note 9]*	**225,494**	272,393
General interest and continuing education	**105,019**	123,856
Interest *[note 10[b]]*	**34,376**	26,748
	17,267,368	16,334,508
EXPENSES		
Salaries and employee benefits	**11,346,155**	10,971,426
Office and general	**1,132,717**	1,101,030
Amortization	**831,734**	966,720
General maintenance	**744,118**	807,563
Research	**732,593**	712,267
Travel, promotion and advertising	**719,298**	613,750
Books and teaching supplies *[notes 8 and 10[c]]*	**682,807**	663,420
Cost of goods sold	**644,957**	599,251
Rent	**194,738**	127,900
Bursaries and awards	**118,640**	130,352
Professional services	**102,961**	136,724
Interest	**55,084**	38,315
Graduation and student events	**34,425**	34,686
	17,340,227	16,903,404
Deficiency of revenues over expenses for the year before the following	**(72,859)**	(568,896)
Restructuring costs *[note 16]*	**(350,761)**	—
Deficiency of revenues over expenses for the year	**(423,620)**	(568,896)

See accompanying notes

STATEMENT OF CHANGES IN NET ASSETS

Year ended July 31

	Unrestricted		**Endowment**		**Total**	
	2016 **$**	2015 $	**2016** **$**	2015 $	**2016** **$**	2015 $
		[restated – note 15]				*[restated – note 15]*
Balance, beginning of year	**34,425,084**	34,993,980	**67,062**	67,062	**34,492,146**	35,061,042
Deficiency of revenue over expenses for the year	**(423,620)**	(568,896)	**—**	—	**(423,620)**	(568,896)
Balance, end of year	**34,001,464**	34,425,084	**67,062**	67,062	**34,068,526**	34,492,146

See accompanying notes

STATEMENT OF CASH FLOWS

Year ended July 31

	2016	2015
	$	$
OPERATING ACTIVITIES		
Deficiency of revenues over expenses for the year	**(423,620)**	(568,896)
Add item not involving cash		
Amortization	**831,734**	966,720
	408,114	397,824
Net change in non-cash working capital balances *[note 13]*	**83,281**	(16,346)
Cash provided by operating activities	**491,395**	381,478
INVESTING ACTIVITIES		
Acquisition of capital assets	**(741,582)**	(888,786)
Cash used in investing activities	**(741,582)**	(888,786)
FINANCING ACTIVITIES		
Proceeds from credit facility	**50,000**	200,000
Cash provided by financing activities	**50,000**	200,000
Net decrease in cash and cash equivalents during the year	**(200,187)**	(307,308)
Cash and cash equivalents, beginning of year	**730,847**	1,038,155
Cash and cash equivalents, end of year	**530,660**	730,847

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, 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 incorporated on September 10, 2015 *[note 12]*.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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
Building improvements	10 – 20
Leasehold improvements	term of lease
Furniture and fixtures	10
Equipment	4 – 10
Intangible	
Computer software	4 – 10

Artwork classified as tangible assets is considered to have permanent value and is not amortized.

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.

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.

3. CAPITAL ASSETS

Capital assets consist of the following:

	2016		
	Cost $	Accumulated amortization $	Net book value $
Tangible			
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
Intangible			
Computer software	449,901	130,596	319,305
Corporate identity	32,960	—	32,960
	43,850,985	6,781,427	37,069,558

July 31, 2016	2015		
	Cost **$**	**Accumulated amortization** **$**	**Net book value** **$**
Tangible			
Land *[note 5]*	29,000,000	—	29,000,000
Building *[note 5]*	8,395,615	3,358,246	5,037,369
Building improvements	3,270,597	1,624,400	1,646,197
Leasehold improvements	404,530	400,358	4,172
Furniture and fixtures	1,103,770	604,073	499,697
Equipment	1,219,654	640,142	579,512
Artwork	89,300	—	89,300
	43,483,466	6,627,219	36,856,247
Intangible			
Computer software	391,509	121,006	270,503
Corporate identity	32,960	—	32,960
	43,907,935	6,748,225	37,159,710

During the year, the Institute wrote off $798,532 [2015 – $527,778] of fully amortized building improvements, leasehold improvements, furniture and fixtures, equipment and computer software.

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 $3,294,000. 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 [2015 – $3,000,000], which bears interest at the bank's prime rate of 2.70% [2015 – 2.70%] plus 0.80% [2015 – 0.80%]. As at July 31, 2016, the effective interest rate was 3.50% [2015 – 3.50%]. As at July 31, 2016, the Institute has drawn $1,550,000 [2015 – $1,500,000] 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, 2016, the carrying value of the land and building was $33,827,479 [2015 – $34,037,369].

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:

	2016 $	2015 $ *[restated – note 15]*
Balance, beginning of year	**757,658**	759,724
Amounts received *[note 7]*	**1,609,618**	1,096,854
Recognized as revenue	**(1,255,463)**	(1,098,920)
Balance, end of year	**1,111,813**	757,658

The deferred contributions are held for the following purposes:

	2016 $	2015 $ *[restated – note 15]*
Research	**643,841**	508,449
Integrative Cancer Centre	**250,000**	—
Awards and bursaries	**115,776**	75,517
Ottawa Integrative Cancer Centre	**76,206**	109,142
Other	**14,703**	30,940
RSNC Campaign	**11,287**	33,610
	1,111,813	757,658

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 $550 [2015 – $809] 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 $88,040 [2015 – $72,796], which were comprised primarily of medical supplies.

9. OTHER REVENUE

Other revenue include 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. RELATED PARTY TRANSACTIONS

[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. The carrying amounts owing by Enterprises and Press recorded in the accounts of the Institute are as follows:

	2016 $	2015 $
Due from Enterprises	**105,083**	103,692
Due from Press	**767,783**	745,304
Allowance for doubtful accounts	**(662,151)**	(657,351)
	210,715	191,645

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, 2016, the prime rate was 2.70% [2015 – 2.70%]. Interest of $15,722 [2015 – $17,404] 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 $18,564 [2014 – $17,425] from Press which have been included in expenses.

11. COMMITMENTS AND CONTINGENCIES

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

	$
2017	128,324
2018	83,444
2019	66,791
2020	67,882
2021	6,893
	353,334

[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

Ottawa Integrative Cancer Centre Foundation [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 has applied for charitable status and once approved, will be able to issue donation receipts for income tax purposes.

The Foundation has a December 31 year end and has been inactive since inception till July 2016.

The Institute provides 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:

	2016 $	2015 $
Accounts receivable	**(98,825)**	8,544
Inventory	**(22,957)**	18,497
Prepaid expenses	**71,714**	103,713
Accounts payable and accrued liabilities	**115,403**	(98,985)
Deferred revenue	**(336,209)**	(222,357)
Deferred contributions	**354,155**	174,242
	83,281	(16,346)

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Institute is exposed to various financial risks through transactions in financial instruments.

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 $774,740 [2015 – $801,079].

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. CHANGE IN ACCOUNTING POLICY

Effective August 1, 2014, the Institute adopted the deferral method for accounting for contributions, instead of the restricted fund method. As a result, as at August 1, 2014, the Restricted Fund balance decreased by $583,416, deferred revenue decreased by $176,308, and deferred contributions increased by $759,724 *[note 6]*.

16. RESTRUCTURING COSTS

During the year, the Institute took steps to streamline its operations. As a result, the Institute has recorded restructuring expenses of $350,761 (2015 – nil) related to severance and special termination benefits incurred during the year. As at July 31, 2016, an unpaid amount of $55,131 (2015 – nil) is included in accounts payable and accrued liabilities.

17. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2016 financial statements.

ccnm
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