September 24, 2014

Dr. Dan Seitz
Executive Director
Council on Naturopathic Medical Education
P.O. Box 178
Great Barrington, MA 01230
USA

Dear Dr. Seitz:

Please accept this letter and the accompanying materials as the first stage of our focused report, as requested in your letter of June 24, 2014. As discussed with you on the phone, the Canadian College of Naturopathic Medicine (CCNM) is keen to reply fully and completely to the Council's requests, but will not be able to submit a preliminary draft of the FY2014 financial audit at this time, for the reasons described below.

CCNM's year end is July 31, and we are currently still awaiting the provision of invoices from some part-time faculty that relate to last year's activity. In addition, since CCNM exerts substantial control over CCNM Enterprises, which in turn owns CCNM Press, CCNM must await the finalization of the accounts of those entities prior to closing our books and providing them for audit. As discussed, we will be pleased to forward a preliminary copy of the FY2014 financial audit as soon as the draft audit is available, which will most likely be in late November/early December.

We have provided financial projections for FY2015 and FY2016, as requested.

The broad goals underlying the financial management at CCNM are set out below; the choices made have significant impact on the financial ratios being tracked. Also, as we discussed, and as is noted in the Strategic Financial Analysis for Higher Education guide from KPMG, the ratio analysis as outlined is most useful in measuring success against *institution-specific* objectives. Several of the measures in the CFI, specifically those that seek to measure a "rate of return", will never look healthy if our philosophy is to operate on no more than a break-even basis.

The following are the institutional choices that impact the financial ratios that have been identified for use by the CNME:

1. As noted above, CCNM has attempted to operate near a break-even basis for a number of years. The underlying philosophy is that as a charity, we should, on an ongoing basis, expend our resources to achieve the charitable objectives for which we have been created. A deficit would indicate that current students (the primary beneficiaries of our activity) are being advantaged at the expense of those who have come before, or who will follow. Conversely, a profit would suggest that current students are paying more than required, for the benefit of those who will attend in the future. We recognize that there is a concurrent responsibility to ensure the institution has sufficient resources for the future, and that is addressed below. Although historically we have kept the deficit/surplus within +/-$50K, a move

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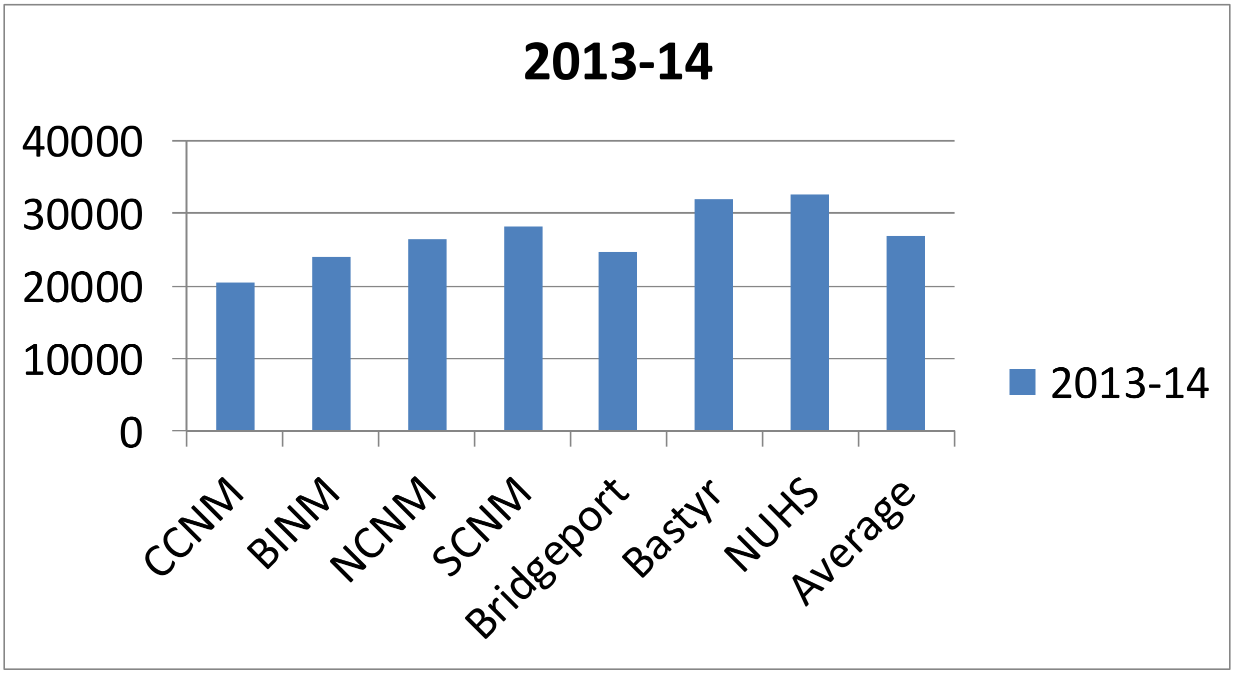
to greater fund accounting (with recognition of receipts in restricted funds on a cash basis) has caused more significant deviations.

2. Many institutions possess little, or no, real property or have property that is heavily mortgaged. They have limited access to borrowed money at reasonable rates, and as a result, they maintain a reserve fund for the 'proverbial' rainy day. CCNM has moved to a point where it has zero long-term debt, and uses limited and variable current borrowing based upon cash requirements at different times of the year. Our ability to do so is supported by our major asset, the 4.3 acres on which the College is situated. Although this asset is illiquid with respect to immediate conversion into money, it is a resource against which Canadian banks are eager to lend. We have a credit facility with the Royal Bank of Canada for six million CDN$ secured against the land and building. We could convert this to a term loan, and then place (say) $3 million in a "reserve fund". Instead we have arranged for $3 million of the facility to be for an open line-of-credit. Although this can be tracked in the notes to our financial statements (Note 7 for FY2013) it has no impact on the ratios.

3. Notwithstanding the issues raised above, management at CCNM is aware that the presence of cash reserves does provide comfort to readers of the financial statements, and we are investigating arranging a term loan that would provide a cash reserve, and be used for ongoing capital projects, or strategic initiatives such as our renewed focus on communications. The attached pro forma financial statements indicate the impact of a $3.5 million term loan (amortized over 10 years) in April 2015.

4. CCNM views the establishment and operation of the Ottawa Integrative Cancer Centre as a crucial tool in promoting the broader acceptance of naturopathic medicine within Canada. As a result, we have drawn on other resources in order to establish the Centre. This decision has caused us to have a lower surplus/deficit for fiscal FY2014 than we budgeted, and we will be working to ensure that it draws less on CCNM's resources in the future.

5. Finally, as the chart on the following page indicates, CCNM's tuition is considerably below that of other naturopathic education programs. (This data was gathered in March 2014 and reflected 2013-2014 tuition. The difference between CCNM/Boucher and the US institutions would be considerably greater now, with the recent drop in the Canadian dollar.) This has been a conscious choice on CCNM's part, based upon the fact that financial concerns are the number one issue identified by students in satisfaction surveys. However, we may have to move to an increase above inflation if there is a desire to accumulate annual surpluses.



I want to emphasize that CCNM takes the CNME accreditation process very seriously and we want to provide the information required to indicate compliance with CNME standards. In the case of our financial structure, we have arrived at our current position through conscious decisions, but we are open to considering a term loan, if required.

Sincerely,

Bob

Bob Bernhardt, PhD
President and CEO

c: Paul Battistuzzi, Chief Financial Officer
Leah Daniels, Senior Policy Advisor

Attachment

Pro forma Financial Statements for Fiscal 2015 & 2016 to Reflect the Impact of Long-Term Borrowing

The financial statements presented reflect the impact in fiscal years 2015 and 2016 of borrowing $3.5 million to cover capital expenditures over the next 5 years. The 2015 statements are based on the budget approved by CCNM's board and the 2016 statements were based on projected financial statements for the college's submission for degree granting.

The statements have been altered to reflect the impact on the statement of financial position of the term loan, the impact on cash flow resulting from the use of a term loan and the effect on income from the servicing of the debt.

Impact:

Statement of Revenues and Expenses

- Increase budgeted deficit in FY2015 and create a small projected deficit in FY2016 due to increased interest costs

Statement of Cash Flows

- Increase in cash available for non-capital items for FY2015 and FY2016
- Movement from short-term to long-term financing

Statement of Financial Position

- Injection of cash in FY2015 with a continued impact on FY2016 and beyond
- Less reliance on short-term financing
- Shifting in emphasis from short-term to long-term financing

Ratios:

	FY14 (Draft)	FY15 (Approved Budget)	FY15 (With Long-term Loan)	FY16 (With Long-term Loan)
Primary Reserve Ratio (times)	-0.14	-0.15	0.04	0.03
Viability Ratio (times)	N/A	N/A	0.20	0.19
Return on Net Assets (%)	-0.02	-0.01	-0.01	0
Net Operating Revenues Ratio (%)	-0.04	-0.03	-0.03	0
CFI	-0.79	-0.70	0.13	0.28

Assumptions:

- $3.5 million borrowed in April, 2015 @4.5% amortized over 10 years
- FY2016 is based on the planning assumptions utilized in the Post-Secondary Education Quality Assessment Board (PEQAB) submission for degree granting
- FY2016 adopts the moderate projection as submitted to PEQAB
- Moderate case scenario assumes a decline of 0.87% in enrolment and a 2% tuition increase
- Moderate case also assumes a 2% increase in salary & benefits
- Moderate case assumes marginal reductions in a number of the expense lines consistent with the actions that the College would take in response to an enrolment shortfall.

Canadian College of Naturopathic Medicine

Summary Statement of Revenue & Expenses
By Line Item
Operating Fund

	Budget 2015	Budget 2016
Revenue		
Tuition Fee - ND	$ 10,784,286	$ 10,725,189
Tuition Fee - IMG	1,098,093	$ 1,076,098
Prerequisite Science Courses	125,400	$ 126,225
Clinical revenue	1,118,388	$ 1,115,969
Research grants & contracts	147,978	$ 167,555
OICC	455,807	$ 620,000
Continuing education	181,500	$ 161,359
Donations & sponsorships	282,765	$ 240,000
Property Revenue	1,434,259	$ 1,475,747
Interest income	24,350	$ 34,168
Other revenue	148,230	$ 130,358
	$ 15,801,056	15,872,668
Expense		
Salaries & benefits	$ 8,970,838	$ 9,195,109
Contract Faculty	2,499,293	$ 2,105,949
Training Programs	105,600	$ 100,500
Employee Programs	22,960	$ 24,460
Environmental Sustainability	0	$ -
General office	725,371	$ 648,551
Research studies	-63,022	$ 53,365
Travel	127,879	$ 155,520
Public Relations	152,827	$ 115,612
Printing	91,609	$ 87,553
Advertising	134,950	$ 175,550
Professional fees	122,219	$ 112,794
Consulting fees	252,796	$ 175,702
Bursary/Awards	43,302	$ 30,000
Student recruitment	94,330	$ 111,082
Student events	34,325	$ 31,389
Teaching aids	709,421	$ 598,346
Utilities	424,681	$ 450,161
General maintenance	447,496	$ 431,444
Accreditation	0	$ -
Insurance	139,600	$ 142,392
Rent	129,687	$ 127,932
Interest expense	87,835	$ 154,923
Miscellaneous	199,271	$ 119,228
	$ 15,453,267	15,147,563
Net surplus (deficit) before amortization, OICC-Hecht Subsidy	$ 347,789	$ 725,105
Amortization	$ 993,956	$ 865,000
OICC-Hecht Subsidy	(184,591)	$ (137,238)
Contingency & project reserve	-	-
	$ 809,365	$ 727,762
Net operating surplus(deficit)	$ (461,576)	$ (2,657)
Opening surplus (deficit)	$ 35,205,041	$ 34,743,465
Interfund transfers	0	0
Accumulated surplus (deficit)	$ 34,743,465	$ 34,740,808

Canadian College of Naturopathic Medicine

Statement of Cash Flows
Operating Fund

	Budget 2015	Budget 2016
Operating activities		
Operating surplus	$ (461,576)	$ (2,657)
Add back amortization	993,956	865,000
Change in working capital	35,218	-662,218
	$ 567,598	$ 200,124
Investing activities		
Capital purchases	$ (935,064)	$ (650,000)
Disposal of assests	-	-
	(935,064)	(650,000)
Financing activities		
Term Loan	3,500,000	-
Repayment of Term Loan	(93,830)	(289,949)
Repayment of LOC	(2,000,000)	(750,000)
Operating loan	1,150,000	450,000
Transfer from other funds	-	-
	$ 2,556,170	$ (589,949)
Total cash flow for the year	$ 2,188,704	$ (1,039,825)
Opening cash balance	$ 447,882	$ 2,636,586
Closing cash balance, general fund	$ 2,636,586	$ 1,596,761

Canadian College of Naturopathic Medicine

Statement of Financial Position
Operating Fund

	Budget 2015	Budget 2016
Assets		
Current		
Cash & short-term investments	$ 2,636,586	$ 1,596,761
Accounts receivable		
Student	210,364	280,000
Other	280,000	390,000
Other current assets	325,000	507,000
	3,451,950	2,773,761
Long term prepaid expenses	-	-
Capital assets, net	37,248,268	37,033,268
Total assets	$ 40,700,218	$ 39,807,029
Liabilities & Fund balance		
Current		
Accrued liabilities	$ 1,132,164	$ 1,100,000
Current portion of term loan	289,949	303,083
Short-term debt	450,000	150,000
Deferred revenue & contributions	968,418	700,000
	$ 2,840,532	$ 2,253,083
Long-term liabilities		
Term Loan	3,116,221	2,813,138
2nd Mortgage	-	-
	3,116,221	2,813,138
Fund Balance	$ 34,743,465	$ 34,740,808
Total liabilities & Fund balance	$ 40,700,218	$ 39,807,029