

DRAFT
For Discussion Purposes Only

FINANCIAL STATEMENTS

For

ACUPUNCTURE CANADA

For the year ended

JANUARY 31, 2016

INDEPENDENT AUDITOR'S REPORT

To the directors of

ACUPUNCTURE CANADA

We have audited the accompanying financial statements of Acupuncture Canada, which comprise the statement of financial position as at January 31, 2016 and the statements of operations and 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.

Auditor's 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 auditor's 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 auditor considers 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 Acupuncture Canada as at January 31, 2016 and the results of its operations and cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
Date to be determined.

ACUPUNCTURE CANADA
STATEMENT OF FINANCIAL POSITION
JANUARY 31, 2016

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 181,196	\$ 80,910
Short term investments	-	153,641
Accounts receivable	-	300
Prepaid expenses	<u>7,211</u>	<u>17,017</u>
	188,407	251,868
INVESTMENTS (note 4)	513,523	441,608
TANGIBLE CAPITAL ASSETS (note 5)	3,815	4,883
INTANGIBLE ASSETS (note 6)	<u>91,577</u>	<u>119,773</u>
	<u>\$ 797,322</u>	<u>\$ 818,132</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 34,433	\$ 19,070
Government remittances payable	17,123	14,984
Deferred revenue (note 7)	<u>390,988</u>	<u>377,915</u>
	442,544	411,969
NET ASSETS		
Net assets	<u>354,778</u>	<u>406,163</u>
	<u>\$ 797,322</u>	<u>\$ 818,132</u>

Approved on behalf of the Board:

..... Director

..... Director

(See accompanying notes)

ACUPUNCTURE CANADA
STATEMENT OF OPERATIONS AND NET ASSETS
YEAR ENDED JANUARY 31, 2016

	<u>2016</u>	<u>2015</u>
Revenue		
Education	\$ 662,490	\$ 563,030
Membership	209,865	243,525
Examination	102,375	107,175
Interest and other income	15,712	30,455
	<u>990,442</u>	<u>944,185</u>
Expenses		
Education (note 8)	593,583	501,989
Administration (note 9)	342,594	323,999
Examination	75,449	84,990
Website development	13,813	20,736
Board and AGM	16,388	20,008
	<u>1,041,827</u>	<u>951,722</u>
Excess of expenses over revenue	(51,385)	(7,537)
Net assets, beginning of year	<u>406,163</u>	<u>413,700</u>
Net assets, end of year	<u>\$ 354,778</u>	<u>\$ 406,163</u>

(See accompanying notes)

ACUPUNCTURE CANADA
STATEMENT OF CASH FLOWS
YEAR ENDED JANUARY 31, 2016

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of expenses over revenue	\$ (51,385)	\$ (7,537)
Adjustments for:		
Amortization	29,264	3,733
	<u>(22,121)</u>	<u>(3,804)</u>
Changes in the level of:		
Accounts receivable	299	12,690
Prepaid expenses	9,806	30,459
Accounts payable and accrued liabilities	15,364	(18,250)
Government remittances payable	2,139	12,278
Deferred revenue	13,073	73,685
	<u>18,560</u>	<u>107,058</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from redemption of investments	81,726	63,033
Purchase of intangible assets	-	(122,123)
	<u>81,726</u>	<u>(59,090)</u>
INCREASE IN CASH	100,286	47,968
CASH AT BEGINNING OF YEAR	<u>80,910</u>	<u>32,942</u>
CASH AT END OF YEAR	<u>\$ 181,196</u>	<u>\$ 80,910</u>

(See accompanying notes)

ACUPUNCTURE CANADA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JANUARY 31, 2016

1. OBJECTIVE OF THE ORGANIZATION

Acupuncture Canada ("Organization") is incorporated without share capital under the laws of the Federal Government of Canada as a not-for-profit organization. The Organization is established to advise and promote the demonstrated benefits of acupuncture and provide an inclusive and diverse range of integrated continuing education programs in acupuncture and to regulated health professionals. The Organization is a not-for-profit organization and accordingly is exempt from income taxes.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations and include the following significant accounting policies:

Revenue recognition

The Organization earned revenue from several sources. The principal sources of revenue and recognition of these revenues for financial statement purposes are as follows:

- a) Membership fees are recognized in the year in which they are relate to.
- b) Education and examination fees are recognized in the year when the courses and examinations take place.
- c) Interest income is recognized on an accrued basis using the effective interest method. Other income is recognized in the year in which it is received.

Deferred revenue and expenses

Deferred revenue and deferred expenses are amounts collected or incurred during the year related to membership, courses, and examinations which will take place in the subsequent fiscal year.

Tangible capital assets and intangible assets

Tangible capital assets and intangible assets are stated at cost and are amortized over the useful life of each asset. Amortization is provided using the following basis and annual rates:

Furniture and equipment	- 20% declining balance
Computer hardware	- 30% declining balance
Computer software	- 100% straight line
Course license	- 20% straight line
Website	- 25% straight line

ACUPUNCTURE CANADA
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED JANUARY 31, 2016

2. **SIGNIFICANT ACCOUNTING POLICIES - Cont'd.**

Use of estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates include estimates of the collectibility of accounts receivable, determination of accrued liabilities and the useful life and amortization of tangible capital assets and intangible assets. While management believes that these estimates and assumptions are reasonable, actual results could vary significantly.

Financial instruments

The Organization initially measures its financial assets and financial liabilities at fair value.

With the exception of cash, the Organization subsequently measures all its financial assets and financial liabilities at amortized cost.

Financial assets measured at amortized cost include short-term investments, accounts receivable and investments. Financial liabilities measured at amortized cost include accounts payable and accrued liabilities and government remittances payable.

3. **FINANCIAL INSTRUMENTS**

The Organization is exposed to various risks through its financial instruments. The following analysis provides a measure of the Organization's risk exposure and concentrations. The Organization does not use derivative financial instruments to manage its risks.

Credit risk

Credit risk is the risk that the Organization will incur a loss due to the failure by its members or other parties to meet their contractual obligations. Financial instruments that potentially subject the Organization to significant concentrations of credit risk consist primarily of cash, investments and accounts receivable. The Organization limits its exposure to credit risk by placing its cash, short-term investments, and investments with high credit quality financial institutions.

The Organization manages its credit risk on accounts receivable by collecting all fees from members prior to attending the course. Management believes that all accounts receivable at year end will be collected.

Liquidity risk

Liquidity risk is the risk that the Organization will not be able to meet its obligations as they fall due. All of the Organization's financial liabilities are due within 12 months from January 31, 2016.

It is the Organization's intention to meet these obligations through the use of cash and investments.

ACUPUNCTURE CANADA
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED JANUARY 31, 2016

3. **FINANCIAL INSTRUMENTS - Cont'd.**

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors and is comprised of currency risk, interest rate risk and other price risk.

i) *Currency risk*

The Organization is exposed to currency exchange risk by virtue of the fact that it transacts in currencies other than the Canadian dollar. At year-end, approximately \$679 (2015 - \$618) of the Organization's cash was denominated in US dollars.

ii) *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. All of the Organization's financial assets and liabilities are non-interest bearing except cash and investments which bear interest rates disclosed in note 4.

iii) *Other price risk*

Other price risk refers to the risk that the fair value of financial instruments or future associated cash flows will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all similar instruments traded in the market. As disclosed in note 4, the Organization has investments in guaranteed investment certificates which bear interest that is linked to the performance of bank stocks. Since the capital on these investments is guaranteed, the Organization is not subject to significant other price risk.

Changes in risk

There have been no significant changes to the Organization's risk exposure from prior year.

4. **INVESTMENTS**

Long term investments are guaranteed investment certificates with a maturity date greater than one year from the year-end date. Interest is earned at fixed rates ranging between 0.33% and 0.66% and the investments mature from May 2017 to March 2018. Included in long term investments are two guaranteed investment certificates totaling \$200,069 that bear interest that is linked to bank stocks that may have a maximum return of 10%, determined at maturity.

ACUPUNCTURE CANADA
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED JANUARY 31, 2016

5. TANGIBLE CAPITAL ASSETS

Tangible capital assets consist of the following:

	<u>2016</u>		<u>2015</u>	
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Cost</u>	<u>Accumulated amortization</u>
Furniture and equipment	\$ 30,223	\$ 27,044	\$ 30,223	\$ 26,249
Computer hardware	36,091	35,455	36,091	35,182
Computer software	<u>3,697</u>	<u>3,697</u>	<u>3,697</u>	<u>3,697</u>
	70,011	<u>\$ 66,196</u>	70,011	<u>\$ 65,128</u>
Accumulated amortization	<u>66,196</u>		<u>65,128</u>	
Net book value	<u>\$ 3,815</u>		<u>\$ 4,883</u>	

Included in administration expenses is \$1,068 (2015 - \$1,383) in amortization of tangible capital assets.

6. INTANGIBLE ASSETS

	<u>2016</u>		<u>2015</u>	
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Cost</u>	<u>Accumulated amortization</u>
Course license	\$ 46,673	\$ 10,112	\$ 46,673	\$ 778
Website	<u>75,450</u>	<u>20,434</u>	<u>75,450</u>	<u>1,572</u>
	122,123	<u>\$ 30,546</u>	122,123	<u>\$ 2,350</u>
Accumulated amortization	<u>30,546</u>		<u>2,350</u>	
	<u>\$ 91,577</u>		<u>\$ 119,773</u>	

Included in administration expenses is \$18,862 (2015 - \$2,350) of amortization of intangible asset, website. Included in education expenses is \$9,334 (2015 - nil) of amortization of intangible asset, course license.

7. DEFERRED REVENUE

Deferred revenue consists of the following:

	<u>2016</u>	<u>2015</u>
Membership revenue	\$ 145,418	\$ 122,145
Seminar revenue	183,215	217,670
Examination revenue	<u>62,355</u>	<u>38,100</u>
	<u>\$ 390,988</u>	<u>\$ 377,915</u>

ACUPUNCTURE CANADA
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED JANUARY 31, 2016

8. EDUCATION EXPENSES

Education expenses consist of the following:

	<u>2016</u>	<u>2015</u>
Faculty fees	\$ 182,600	\$ 146,700
Food and room rental	169,203	136,858
Course development fees	127,376	117,688
Course supplies	72,484	30,197
Travel	28,572	25,167
DVD & licence costs (note 6)	9,827	31,425
Education website development	<u>3,521</u>	<u>13,954</u>
	<u>\$ 593,583</u>	<u>\$ 501,989</u>

9. ADMINISTRATION EXPENSES

Administration expenses consist of the following:

	<u>2016</u>	<u>2015</u>
Salaries and benefits	\$ 202,553	\$ 211,949
Legal and accounting fees	18,377	26,046
Bank charges	27,536	28,503
Advocacy fees	3,609	2,639
Rent expenses	38,092	27,763
General and office expenses (note 5 and 6)	46,287	21,394
Telephone expenses	<u>6,140</u>	<u>5,705</u>
	<u>\$ 342,594</u>	<u>\$ 323,999</u>

10. COMMITMENTS

The Organization has entered into leases for the office premises (expiring in June 2019) and the photocopiers (expiring in March 2017). The minimum lease payments are as follows:

2017	\$ 16,512
2018	16,562
2019	17,562
2020	<u>7,400</u>
	<u>\$ 58,036</u>

The Organization has overdraft protection of \$50,000, bearing interest at prime plus 5% per annum. No amount has been drawn on this line of credit as at January 31, 2016 (2015 - Nil).

11. RELATED PARTY TRANSACTIONS

Certain members of the board are also faculty members, participating as lecturers, facilitators, and examiners. The remuneration paid to these members in the year amount to \$19,600 (2015 - \$45,900). These amounts were paid in the normal course of operations and determined based on other similar arrangements with unrelated parties and recorded at the exchange amount.