Financial Statements of

THE CANADIAN NATIONAL INSTITUTE FOR THE BLIND

Year ended March 31, 2015

INDEPENDENT AUDITORS' REPORT

To the National Board of Directors and Members of
The Canadian National Institute for the Blind

We have audited the accompanying financial statements of The Canadian National Institute for the Blind, which comprise the statement of financial position as at March 31, 2015 and the statements of operations and changes in fund balances 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 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 The Canadian National Institute for the Blind as at March 31, 2015, 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.

Other Matter

The statement of financial position as at March 31, 2014, and the statements of operations and changes in fund balances and cash flows for the year then ended were audited by another auditor who issued an unmodified opinion on June 20, 2014.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
June 19, 2015

THE CANADIAN NATIONAL INSTITUTE FOR THE BLIND
Statement of Financial Position
(In thousands of dollars)

March 31, 2015, with comparative information for 2014

	2015	2014
Assets		
Current assets:		
Cash	$ 1,432	$ 1,790
Accounts receivable and pre-payments	4,126	6,348
Mortgage receivable	-	2,175
Inventories and supplies	906	793
	6,464	11,106
Accrued pension asset (note 3)	16,075	5,852
Investments (note 4)	30,667	33,070
Capital assets (note 5)	63,465	63,088
	$ 116,671	$ 113,116

		2015		2014
Liabilities, Deferred Contributions and Fund Balances				
Current liabilities:				
Bank indebtedness (note 6)	$	4,497	$	1,805
Current portion of property loans (note 7)		4,346		934
Current portion of term loan (note 7)		900		900
Accounts payable and accrued liabilities (note 7)		5,516		7,386
		15,259		11,025
Property loans (note 7)		3,821		6,667
Term loan (note 7)		3,300		4,200
Deferred contributions:				
Expenses of future periods (note 8)		6,733		9,336
Capital assets (note 9)		12,486		13,425
		19,219		22,761
	$	41,599	$	44,653
Fund balances:				
Invested in capital assets (note 11)		42,459		41,390
Endowments (note 12)		9,395		9,321
Internally restricted strategic reserve(note 10)		10,257		12,942
Unrestricted operating fund		12,961		4,810
		75,072		68,463
Commitments and contingencies (note 13)				
	$	116,671	$	113,116

See accompanying notes to financial statements.

On behalf of the Board of Directors:

Chair, Board of Directors

Chair, Finance and Risk Management Committee

THE CANADIAN NATIONAL INSTITUTE FOR THE BLIND

Statement of Operations and Changes in Fund Balances
(In thousands of dollars)

Year ended March 31, 2015, with comparative information for 2014

	Unrestricted operating fund	Internally restricted Strategic reserve	Invested in capital assets	Endowments	2015 Total	2014 Total
		(note 10)	(note 11)	(note 12)		
Revenue:						
Support from the public	$ 19,853	$ 6,839	$ –	$ –	$ 26,692	$ 30,002
Government funding towards programs and services	26,836	–	–	–	26,836	26,192
Retail lottery and gaming operations	9,670	–	–	–	9,670	9,499
Investment	2,033	2,788	–	249	5,070	6,986
Fees for service	1,363	–	–	–	1,363	1,507
Consumer products and assistive technology sales	3,733	–	–	–	3,733	3,926
Amortization of deferred capital contributions (note 9)	–	–	1,313	–	1,313	1,803
Other	2,634	–	–	–	2,634	1,976
Gain on sale of capital assets	98	–	–	–	98	516
	66,220	9,627	1,313	249	77,409	82,407
Expenses:						
Program:						
Community-based programs and services	49,715	–	2,455	169	52,339	50,459
Public education and advocacy	4,386	–	70	–	4,456	3,330
Research	517	–	7	80	604	555
	54,618	–	2,532	249	57,399	54,344
Other:						
Fund development (note 14)	11,421	–	167	–	11,588	12,184
Retail lottery and gaming operations	7,684	–	88	–	7,772	7,351
Administration	2,136	–	217	–	2,353	2,529
Other	1,137	–	156	–	1,293	1,015
	22,378	–	628	–	23,006	23,079
	76,996	–	3,160	249	80,405	77,423
(Deficiency) excess of revenue over expenses	$ (10,776)	$ 9,627	$ (1,847)	$ –	$ (2,996)	$ 4,984
Transfer to unrestricted operating fund (note 10)	12,312	(12,312)	–	–	–	–
	1,536	(2,685)	$ (1,847)	–	(2,996)	4,984
Invested in capital assets (note 11)	(2,916)	–	2,916	–	–	–
Endowment contributions (note 12)	–	–	–	74	74	509
Pension transition adjustment (note 2)	9,531	–	–	–	9,531	10,924
Net change	8,151	(2,685)	1,069	74	6,609	16,417
Fund balances, beginning of the year	4,810	12,942	41,390	9,321	68,463	52,046
Fund balances, end of the year	$ 12,961	$ 10,257	$ 42,459	$ 9,395	$ 75,072	$ 68,463

See accompanying notes to financial statements.

THE CANADIAN NATIONAL INSTITUTE FOR THE BLIND

Statement of Cash Flows

(In thousands of dollars)

Year ended March 31, 2015, with comparative information for 2014

	2015	2014
Cash provided by (used in):		
Operating activities:		
(Deficiency) excess of revenue over expenses	$ (2,996)	$ 4,984
Items not involving cash:		
Change in fair value of investments	(2,597)	(5,042)
Amortization of capital assets	3,160	3,110
Amortization of deferred contributions related to expenses of future periods	(25,032)	(23,280)
Amortization of deferred contributions related to capital assets	(1,313)	(1,803)
Gain on sale of capital assets	(21)	(516)
Pension expense	1,904	2,685
Pension employer contributions	(2,596)	(4,563)
Deferred contributions related to expenses of future periods	22,532	24,076
Change in non-cash operating working capital	239	(222)
	(6,720)	(571)
Financing activities:		
Repayment of property loans	(934)	(729)
Property loans	1,500	3,000
Repayment of term loan	(900)	(1,425)
Deferred contributions related to capital assets	271	731
Endowments	74	509
	11	2,086

THE CANADIAN NATIONAL INSTITUTE FOR THE BLIND
Statement of Cash Flows (continued)
(In thousands of dollars)

Year ended March 31, 2015, with comparative information for 2014

		2015		2014
Investing activities:				
Proceeds from disposal of capital assets		21		2,218
Mortgage receivable		2,175		-
Sale of investments		5,000		6,500
Purchase of investments		-		(1,000)
Purchase of capital assets		(3,537)		(5,367)
		3,659		2,351
Change in cash/bank indebtedness		(3,050)		3,866
Cash and bank indebtedness, beginning of year		(15)		(3,881)
Cash and bank indebtedness, end of year	$	(3,065)	$	(15)
Cash and bank indebtedness is comprised of:				
Cash	$	1,432	$	1,790
Bank indebtedness		(4,497)		(1,805)
	$	(3,065)	$	(15)
Supplemental disclosure of cash flow				
Deferred gain related to sale of capital assets	$	(326)	$	(412)
Change in deferred capital gain		(86)		412

See accompanying notes to financial statements.

The Canadian National Institute for the Blind ("CNIB") was incorporated on March 30, 1918 by Letters Patent under the Companies Amendment Act of 1917. CNIB is a nationwide, community-based, volunteer agency committed to research, public education and the vision health of all Canadians. It provides vital programs and services, innovative consumer products, and one of the world's largest libraries for people with print disabilities. CNIB also focuses on protection and prevention today, as well as on treatments and cures for tomorrow. CNIB is a registered charity under the Income Tax Act and, accordingly, is exempt from income taxes, provided certain requirements of the Income Tax Act are met.

1. Significant accounting policies:

These financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations.

(a) Revenue recognition:

CNIB follows the deferral method of accounting for contributions, which include support from the public and government support.

Externally restricted contributions, other than endowments, are recognized as revenue in the year in which the related expenses are incurred. Contributions restricted for the purchase of capital assets are deferred and amortized into revenue on a straight-line basis, at a rate corresponding with the amortization rate for the related capital assets.

Endowment contributions are recognized as direct increases in fund balances in the year in which they are received.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Income from investments includes the realized gains or losses from the sale of units of CNIB's managed investment funds, as well as interest income and unrealized gains or losses for the year. Restricted investment income is recognized as revenue in the year in which the related expenses are recognized. Unrestricted investment income is recognized as revenue when earned.

1. Significant accounting policies (continued):

Revenue from fees for service and sale of consumer products and assistive technology is recognized when the services are provided or the goods are sold.

Unrestricted contributions of legacies or bequests and investment income, including realized or unrealized gains or losses, are reported within the internally restricted strategic reserve fund as support from the public and investment revenue respectively. Incidental rent revenue and related operating costs associated with renting excess capacity in CNIB facilities is reported in the unrestricted operating fund as investment revenue and other costs.

(b) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently measured at cost or amortized cost, unless management has elected to carry the instruments at fair value. CNIB has elected to carry its investments at fair value. Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, CNIB determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount CNIB expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

(c) Inventories and supplies:

Inventories and supplies are recorded at the lower of cost on a first-in, first-out basis, and net realizable value.

1. Significant accounting policies (continued):

(d) Capital assets:

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Assets are amortized over the estimated life of the assets. Repairs and maintenance costs are charged to expense. If a capital asset no longer contributes to CNIB's ability to provide services, its carrying amount is written down to its residual value.

Capital assets are amortized on a straight-line basis using the following annual rates:

Buildings	2.5%
Computer equipment and software	14.3% - 33.3%
Vehicles	25.0% - 33.3%
Furniture and office equipment	25.0%
Leasehold improvements	Term of lease

(e) Contributed services:

CNIB benefits from substantial services in the form of volunteer time to fulfill its mission. Because of the difficulty of determining the fair value, contributed services are not recognized in the financial statements.

(f) Employee future benefits:

CNIB administers the Pension Plan for Employees of CNIB. The plan has a defined benefit portion and a defined contribution portion. Employees with greater than two years of service are eligible to join the defined contribution plan, while the defined benefit plan was closed to new entrants effective June 2010. The benefits are based on years of service, years of contributions and final average earnings. The defined benefit plan includes the basic plan and excess benefits plan. CNIB does not provide any significant non-pension, post-retirement benefits.

1. Significant accounting policies (continued):

CNIB uses the immediate recognition approach to account for its defined benefit plan. CNIB accrues its obligations under the defined benefit plan as employees render the services necessary to earn the pension benefits. The actuarial determination of the accrued benefit obligations for pensions uses the projected benefit method prorated on service (which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors). The most recent actuarial valuation of the benefit plan for funding purposes was as of December 31, 2013, and the next required valuation will be December 31, 2016.

Actuarial gains (losses) on plan assets arise from the difference between the actual return on plan assets for a period and the expected return on plan assets for that period. For the purpose of calculating the expected return on plan assets, the assets are valued at fair value. Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation.

The cost of the defined contribution portion is based on percentage of the employee's pensionable earnings.

(g) Allocation of expenses:

CNIB classifies expenses on the statement of operations by function. General support expenses are allocated by identifying the appropriate drivers such as operational activities, square footage, employee count, and applying these bases consistently.

(h) Use of estimates:

The preparation of financial statements in accordance with Canadian non-for-profit accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the carrying amount and useful lives of capital assets and obligations related to employee future benefits. Actual results could differ from these estimates.

2. Change in accounting policy:

The Chartered Professional Accountants of Canada's (CPA Canada) Accounting Standards Board (AcSB) approved and released Section 3463 Reporting Employee Future Benefits by Not-for-Profit Organizations ("Section 3463"). The Standard applies to fiscal years beginning on or after January 1, 2014. Except as otherwise provided for in Section 3463, CNIB is required to apply Employee Future Benefits, Section 3462 in Part II of the CPA Canada Handbook. This Standard is also effective for years beginning on or after January 1, 2014. CNIB adopted both Standards effective April 1, 2014. The transition date for the new Standards is April 1, 2013. In accordance with the transitional provisions, CNIB retrospectively applied the revised Standard. The 2014 corresponding figures and notes have been restated.

Section 3463 eliminated the deferral and amortization method as a policy choice for accounting for defined benefit plans and the three-month window for measuring plan assets and obligations. These standards require that changes in the fair value of plan assets and in the measurement of the plan obligation, including past service costs, actuarial gains and losses, and curtailment/settlement gains and losses, will be recognized directly in fund balances in the statement of financial position rather than in the statement of operations, and any future remeasurements and other items will be recognized directly in fund balances in the statement of financial position, rather than in the statement of operations.

As a result, the accrued pension asset on the statement of financial position reflects the defined benefit obligation, net of the fair value of any plan assets, adjusted for any valuation allowance as of the balance sheet date. Further, Section 3463 requires separate identification of remeasurements and other items from the other pension costs thereby allowing visibility to the impact resulting from the periodic remeasurements as a separately identified line item in the statement of changes in fund balances.

The retrospective application of the new Standard resulted in an increase to opening fund balances at April 1, 2014 of $10,924.

(in thousands of dollars except as noted)

3. Accrued pension asset:

	2015	2014
Accrued pension obligation	$ 103,285	$ 98,458
Fair value of plan assets	119,360	104,310
Accrued pension asset	$ 16,075	$ 5,852

Pension plan assets consist of:

	2015	2014
Equities	58%	60%
Canadian fixed income securities and cash	37%	34%
Real estate	5%	6%
Total	100%	100%

The significant actuarial assumptions adopted in measuring CNIB's accrued pension asset are as follows:

	2015	2014
Accrued benefit obligation:		
Discount rate	5.78%	6.34%
Rate of compensation increase	2.25%	2.25%
Benefit costs:		
Discount rate	6.34%	6.34%
Rate of compensation increase	2.25%	2.25%

(in thousands of dollars except as noted)

3. Accrued pension asset (continued):

CNIB's pension plan expense is as follows:

	2015	2014
Current service cost	$ 2,843	$ 2,318
Interest cost	(464)	367
Additional adjustments to fund balances for elimination of early measurements	(475)	-
Net pension plan expense	$ 1,904	$ 2,685

CNIB also participates in a defined contribution plan, of which $411 (2014 - $375) was expensed in the current year.

4. Investments:

	2015	2014
Canadian fixed income securities and cash	$ 406	$ 1,137
Canadian equities	4,199	5,254
U.S. and global equities	11,828	13,052
Investments held in pooled funds	14,234	13,627
Total	$ 30,667	$ 33,070

	2015		2014	
	Average term to maturity	Average effective yield	Average term to maturity	Average effective yield
Canadian fixed income	0 years	0.0%	0.1 years	1.0%
Fixed income securities held within pooled funds	9.6 years	1.8%	8.7 years	2.2%

(in thousands of dollars except as noted)

5. Capital assets:

March 31, 2015	Cost	Accumulated amortization	2015 Net book value	2014 Net book value
Land	$ 21,109	$ –	$ 21,109	$ 21,105
Buildings	59,920	21,225	38,695	37,198
Computer equipment and software	12,965	10,716	2,249	2,566
Vehicles	1,180	1,089	91	123
Furniture and office equipment	6,205	5,415	790	734
Projects in progress	531	–	531	1,362
	$ 101,910	$ 38,445	$ 63,465	$ 63,088

6. Bank indebtedness:

CNIB has a credit facility available to fund operations and capital expenditures, totalling $6 million at prime plus 0.25%. This amount is due upon demand and is secured by the land and property at 1929 Bayview Ave, Toronto, Ontario (CNIB Centre) and a general security agreement.

7. Property and term loans:

	2015	2014
Mortgage, interest at prime, with monthly payments of $56, due March 31, 2016	$ 3,996	$ 4,663
Loan payable, interest at prime plus 1.1%, with monthly payments of $75, due January 31, 2017	4,200	5,100
Term loan payable, interest at prime plus 1.1%, with monthly payments of $13, due October 31, 2018	1,288	1,438
Term loan payable, interest at prime plus 1.1%, with monthly payments of $17, due August 31, 2019	2,883	1,500
	12,367	12,701
Less current portion	5,246	1,834
	$ 7,121	$ 10,867

(in thousands of dollars except as noted)

7. Property and term loans (continued):

Future principal payments required on all long-term debt for the next five years are as follows:

2016	5,246
2017	3,650
2018	350
2019	1,038
2020	2,083
	$ 12,367

The mortgage is secured by a first fixed charge over the building and land located at the CNIB Centre. The interest expense for the mortgage and the term loans for the year was $686 (2014 - $624).

CNIB has entered into an interest rate swap for the mortgage of the CNIB Centre. At March 31, 2015 the mark-to-market liability of the swap is $138 (2014 - $261) and is recorded under accounts payable and accrued liabilities in the statement of financial position, and the change in the mark-to-market value of the swap is recorded under investment revenue in the statement of operations and changes in fund balances. The swap has a total notional value of $4,051 (2014 - $4,663) and the effective interest rate for that portion of the mortgage is fixed at 5.33%.

CNIB has entered into an interest rate swap for the term loan. At March 31, 2015 the mark-to-market liability of the swap is $85 (2014 - $40) and is recorded under accounts payable and accrued liabilities in the statement of financial position, and the change in the mark-to-market value of the swap is recorded under investment revenue in the statement of operations and changes in fund balances. The swap has a total notional value of $6,150 (2014 - $7,050) and the effective interest rate for that portion of the term loan is fixed at 4.29%.

(in thousands of dollars except as noted)

8. Deferred contributions – expenses of future periods:

Deferred contributions are related to the funding of expenses of future periods representing unspent, externally restricted contributions.

	2015	2014
Balance, beginning of year	$ 9,336	$ 8,562
Add:		
Amount received in the year	22,532	24,076
Less:		
Amount recognized as revenue in the year	(25,032)	(23,280)
Amount transferred to deferred contributions - capital assets	(103)	(22)
Balance, end of year	$ 6,733	$ 9,336

Amounts that have been received may be used for capital purposes once capital budgets have been approved. These amounts will then be transferred to deferred contributions - capital assets.

9. Deferred contributions - capital assets:

Deferred contributions related to capital assets represent the unamortized amount of restricted contributions received for the purchase of capital assets.

	2015	2014
Balance, beginning of year	$ 13,425	$ 14,475
Add:		
Amount received in the year	271	731
Amount transferred from deferred contributions - expenses of future periods	103	22
Less:		
Amount recognized as revenue in the year	(1,313)	(1,803)
Balance, end of year	$ 12,486	$ 13,425

(in thousands of dollars except as noted)

10. Internally restricted strategic reserve:

The Board of Directors has designated certain fund balances as an internally restricted strategic reserve to provide financial stability and to manage earnings volatility inherent in certain uncontrollable revenue sources.

Certain funds, as described in note 1(a), are added to the reserve each year. The Board of Directors will determine, on an annual basis, the amount to be transferred to the unrestricted operating fund.

In 2015, the Board of Directors authorized a transfer of $12,312 to the unrestricted operating fund.

11. Invested in capital assets:

(a) CNIB has an investment in capital assets, which is calculated as follows:

	2015	2014
Capital assets:	$ 63,465	$ 63,088
Amounts financed by:		
Deferred capital contributions	(12,486)	(13,425)
Loans related to capital expenditures	(8,167)	(7,601)
Accounts payable and accrued liabilities	(353)	(672)
	$ 42,459	$ 41,390

(in thousands of dollars except as noted)

11. Invested in capital assets (continued):

(b) The change in this balance is calculated as follows:

	2015	2014
Deficiency of revenue over expenditures:		
Amortization of deferred capital contributions	$ 1,313	$ 1,803
Amortization of capital assets	(3,160)	(3,110)
	(1,847)	(1,307)
Net change in invested in capital assets:		
Purchase of capital assets	3,537	5,367
Net book value of capital assets disposed	–	(1,290)
Amounts funded by:		
Deferred capital contributions	(271)	(731)
Amount transferred from deferred contributions – expenses of future periods	(103)	(22)
Loans related to capital expenditures	(566)	(2,271)
Accounts payable and accrued liabilities	319	(492)
	2,916	561
	$ 1,069	$ (746)

12. Endowments:

CNIB has received a number of externally restricted contributions established as endowments where the principal amounts are preserved and only net investment returns are used for operating and research purposes.

(in thousands of dollars except as noted)

13. Commitments and contingencies:

(a) Lease obligations:

CNIB has commitments with respect to operating leases for premises, vehicles and equipment. The minimum annual commitment under these leases is approximately as follows:

2016	$ 2,090
2017	1,518
2018	1,160
2019	1,097
2020	963
Thereafter	1,989

In relation to these leases, CNIB has agreed to indemnify the landlords against losses occurring on the leased premises which may arise out of a breach of the lease agreement.

(b) Letters of credit:

CNIB has various standby letters of credit with a financial institution totaling $194 (2014 - $194) for operations and capital expenditures.

CNIB has a standby letter of credit with a financial institution totaling $7,695 (2014 - $3,917) to fund special contributions for its deferred benefit pension plan.

(c) Credit facility:

CNIB has credit facility available to fund the renovations of the CNIB Centre, the purchase of land in Edmonton, and restoration work to the pedestrian bridge in Toronto totaling $4,171 (2014 - $1,500) at prime plus 1.1%.

(in thousands of dollars except as noted)

14. Alberta reporting requirements:

The Alberta Charitable Fund-raising Act requires charitable organizations to disclose the remuneration paid to their Alberta employees whose principal duties involve fundraising. CNIB paid $550 (March 31, 2014 - $456) to its Alberta fundraising employees which are included in the fund development costs.

15. Allocation of expenses:

General support expenses have been allocated as follows:

	2015	2014
Community-based programs and services	$ 2,584	$ 2,507
Public education and advocacy	165	111
Research	12	10
Fund development	436	446
Retail lottery and gaming operations	217	215
	$ 3,414	$ 3,289

Fund development expenditures are not allocated.

16. Financial risks:

(a) Interest rate risk:

CNIB is exposed to interest rate risk on its fixed rate financial instruments. Further details about the fixed rate investments are included in note 3 and CNIB has formal policies and procedures that establish target asset mix, minimum credit ratings and varying terms of the securities held. A portion of CNIB's long-term debt has a variable interest rate based on bank prime plus a margin. As a result, CNIB is exposed to interest rate risk due to fluctuations in the bank prime rate.

(b) Market risk:

Market risk arises as a result of trading in equity securities and fixed income securities. Fluctuations in the market expose CNIB to a risk of loss. CNIB mitigates this risk through controls to monitor and limit concentration levels.

16. Financial risks (continued):

(c) Currency:

CNIB is exposed to currency risk arising from gains and losses due to fluctuations in foreign currency exchange rates on CNIB's non-Canadian securities. Foreign currency risk is managed through construction of a diversified portfolio of instruments in various currencies.

(d) Credit risk:

CNIB is exposed to credit-related losses in the event of non-performance by counterparties to the financial instruments. Credit exposure is minimized by dealing with only creditworthy counterparties.

17. Comparative figures:

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.