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**Canadian Tennis Association -  
Association Canadienne de Tennis**  
**Financial Statements**  
For the year ended December 31, 2013

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## Independent Auditor's Report

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To the Members of  
Canadian Tennis Association - Association Canadienne de Tennis

We have audited the accompanying financial statements of Canadian Tennis Association - Association Canadienne de Tennis (the "Association") which comprise the statement of financial position as at December 31, 2013 and the statement 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.

### 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 in our audits 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 Association as at December 31, 2013 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.

*BDO Canada LLP*

Chartered Accountants, Licensed Public Accountants  
Mississauga, Ontario  
April 26, 2014

**Canadian Tennis Association - Association Canadienne de Tennis**  
**Statement of Financial Position**

**As at December 31** 2013                      2012

**Assets**

**Current**

Cash	\$	207,357	\$	1,737,166
Short-term investments		95,154		152,115
Accounts receivable		3,327,442		3,707,742
Current portion of long-term receivable (Note 2)		75,000		75,000
Current portion of due from related party (Note 3)		-		515,000
Foreign exchange contracts		-		2,138
Deferred expenses (Note 5)		200,989		199,143

**3,905,942                      6,388,304**

Due from related party (Note 3)	\$	5,220,637	\$	2,911,689
Property and equipment (Note 4)		33,971,251		35,007,483

**\$ 43,097,830                      \$ 44,307,476**

**Liabilities and Net Assets**

**Current**

Accounts payable and accrued liabilities	\$	4,685,683	\$	4,921,517
Current portion of deferred revenue (Note 5)		4,993,009		5,946,490
Current portion of deferred revenue - construction (Note 6)		377,981		377,981

**10,056,673                      11,245,988**

Deferred revenue (Note 5)	\$	3,614,413	\$	3,840,609
Deferred revenue - construction (Note 6)		13,701,810		14,079,790
Asset retirement obligation (Note 7)		329,088		310,100

**27,701,984                      29,476,487**

**Commitments (Note 8)**

**Net assets**

Invested in property and equipment	\$	19,929,861	\$	20,588,112
Restricted fund		101,962		121,962
Internally restricted fund		167,868		167,868
Unrestricted		(4,803,845)		(6,046,953)

**15,395,846                      14,830,989**

**\$ 43,097,830                      \$ 44,307,476**

On behalf of the Board:

\_\_\_\_\_ Director

\_\_\_\_\_ Director

The accompanying notes are an integral part of these financial statements

**Canadian Tennis Association - Association Canadienne de Tennis**  
**Statement of Financial Position**

As at December 31 2013 2012

**Assets**

**Current**

Cash	\$ 207,357	\$ 1,737,166
Short-term investments	95,154	152,115
Accounts receivable	3,327,442	3,707,742
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Foreign exchange contracts	-	2,138
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**3,905,942 6,388,304**

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Restricted fund	101,962	121,962
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Unrestricted	(4,803,845)	(6,046,953)

**15,395,846 14,830,989**

**\$ 43,097,830 \$ 44,307,476**

On behalf of the Board:

\_\_\_\_\_ Director

\_\_\_\_\_ Director

The accompanying notes are an integral part of these financial statements

**Canadian Tennis Association - Association Canadienne de Tennis**  
**Statement of Operations**

<b>For the year ended December 31</b>	<b>2013</b>	<b>2012</b>
<b>Revenue</b>		
Canadian Open events	\$ 38,585,033	\$ 37,237,429
Sport Canada funding	662,290	1,196,820
Other tournaments	2,763,828	1,527,061
Toronto facility rentals	1,770,414	1,801,011
Development	1,293,406	689,275
Fundraising	1,941,393	1,319,637
Special events	365,101	607,088
Membership fees	20,000	20,000
Facility maintenance revenue	-	235,620
	<u>47,401,465</u>	<u>44,633,941</u>
<b>Expenses</b>		
Canadian Open events	24,920,496	23,856,008
Development programs	10,260,394	9,189,997
Other tournaments	3,932,588	3,023,730
General administration	2,724,816	2,368,690
Communications	419,489	403,050
Toronto facility operational costs	1,650,258	1,760,711
Annual and committee meetings	148,958	99,888
Special events	81,395	278,761
(Gain) loss on foreign exchange	(211,557)	30,284
Fundraising expense	485,701	425,666
Donations disbursed	865,607	509,787
Accretion expense on asset retirement obligation	18,988	17,900
Interest	(5,589)	15,979
Facility advocacy	55,679	90,355
	<u>45,347,223</u>	<u>42,070,806</u>
<b>Excess of revenue over expenses before the undernoted</b>	<b>2,054,242</b>	<b>2,563,135</b>
<b>Amortization of construction sponsorship</b>	<b>377,981</b>	<b>377,981</b>
<b>Amortization of property and equipment</b>	<b>(1,847,366)</b>	<b>(1,776,270)</b>
<b>Excess of revenue over expenses for the year</b>	<b>\$ 584,857</b>	<b>\$ 1,164,846</b>

The accompanying notes are an integral part of these financial statements.

**Canadian Tennis Association - Association Canadienne de Tennis**  
**Statement of Changes in Net Assets**

For the year ended December 31

	Unrestricted	Internally Restricted Fund	Restricted Fund	Invested in Property and Equipment	2013 Total
Net assets, beginning of year	\$ (6,046,953)	\$ 167,868	\$ 121,962	\$20,588,112	\$14,830,989
Excess (deficiency) of revenue over expenses for the year	2,054,242	-	-	(1,469,385)	584,857
Additions to capital assets	(811,134)	-	-	811,134	-
Payment on behalf of restricted fund	-	-	(20,000)	-	(20,000)
<b>Net assets, end of year</b>	<b>\$ (4,803,845)</b>	<b>\$ 167,868</b>	<b>\$ 101,962</b>	<b>\$19,929,861</b>	<b>\$15,395,846</b>

  

	Unrestricted	Internally Restricted Fund	Restricted Fund	Invested in Property and Equipment	2012 Total
Net assets, beginning of year	\$ (6,719,385)	\$ 488,485	\$ 146,962	\$20,095,698	\$14,011,760
Excess (deficiency) of revenue over expenses for the year	2,563,135	-	-	(1,398,289)	1,164,846
Principal repayments of long-term debt	(1,382,850)	-	-	1,382,850	-
Additions to capital assets	(995,718)	-	-	995,718	-
Collection of long-term receivables	487,865	-	-	(487,865)	-
Transfer to (from) internally restricted fund	-	(320,617)	-	-	(320,617)
Payment on behalf of restricted fund	-	-	(25,000)	-	(25,000)
<b>Net assets, end of year</b>	<b>\$ (6,046,953)</b>	<b>\$ 167,868</b>	<b>\$ 121,962</b>	<b>\$20,588,112</b>	<b>\$14,830,989</b>

The accompanying notes are an integral part of these financial statements.

**Canadian Tennis Association - Association Canadienne de Tennis**  
**Statement of Cash Flows**

For the year ended December 31	2013	2012
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Excess of revenue over expenses for the year	\$ 584,857	\$ 1,164,846
Items not involving cash		
Amortization of property and equipment	1,847,366	1,776,270
Amortization of construction sponsorship	(377,981)	(377,981)
Accretion expense on asset retirement obligation	18,988	17,900
Unrealized foreign exchange loss	2,138	35,421
Changes in non-cash working capital balances		
Accounts receivable	380,300	(464,307)
Deferred expenses	(1,846)	260,680
Accounts payable and accrued liabilities	(235,834)	(825,590)
Deferred revenue	(1,179,676)	850,777
	<u>1,038,312</u>	<u>2,438,016</u>
<b>Investing activities</b>		
Additions to capital assets	(811,134)	(995,718)
Due from related party	(1,793,948)	(1,840,907)
Short-term investments	56,961	11,972
Long-term receivable	-	466,671
Payment from restricted funds	(20,000)	(345,617)
	<u>(2,568,121)</u>	<u>(2,703,599)</u>
<b>Financing activities</b>		
Repayment of long-term debt	-	(1,365,000)
<b>Decrease in cash during the year</b>	<b>(1,529,809)</b>	<b>(1,630,583)</b>
<b>Cash, beginning of year</b>	<b>1,737,166</b>	<b>3,367,749</b>
<b>Cash, end of year</b>	<b>\$ 207,357</b>	<b>\$ 1,737,166</b>

The accompanying notes are an integral part of these financial statements.

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## Canadian Tennis Association - Association Canadienne de Tennis Notes to Financial Statements

December 31, 2013

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### 1. Nature of Operations and Summary of Significant Accounting Policies

#### *Nature of Entity*

The Association is a non-profit organization and is a registered Canadian Amateur Athletic Association for income tax purposes. As the Association complies with the applicable provisions of the Income Tax Act (Canada), it is exempt from income taxes and may issue tax-deductible donation receipts. The Association's purpose is to promote and develop tennis in Canada by providing services and programs throughout Canada, in cooperation with provincial associations.

#### *Funds*

The Unrestricted net assets accounts for the operations of the Canadian Tennis Association.

The Internally Restricted Fund consists of funds set aside by the Association as a rain insurance reserve for the Toronto Rogers Cup and Montreal Coupe Rogers.

The Restricted Fund consists of funds contributed by individual donors to support Canadian tennis players. As specified by the donor, the funds will be used to support the development of Canadian tennis players.

#### *Short-term Investments*

Short-term investments consist of money market instruments and GIC's which have been recorded at fair value.

#### *Property and Equipment*

Purchased property, plant and equipment are recorded at cost less accumulated amortization. Amortization is provided over the estimated useful lives of the assets as follows:

Stadium and Centre of Excellence	- 42 years
Events equipment	- 20 %
Office furniture	- 15 %
Computer and office equipment	- 30 %
Leasehold improvements	- 20 %
Tennis court air structure	- 5 %

Property and equipment received in exchange for tournament benefits are recorded at their fair value of the tournament benefits issued.



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## Canadian Tennis Association - Association Canadienne de Tennis Notes to Financial Statements

December 31, 2013

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### 1. Nature of Operations and Summary of Significant Accounting Policies (continued)

#### *Impairment of Long-lived Assets*

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

#### *Asset Retirement Obligation*

The Association applies The Canadian Institute of Chartered Accountants' Handbook Section 3110, Asset Retirement Obligations ("Section 3110"), which establishes standards for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated retirement costs. Section 3110 applies to legal obligations associated with the retirement of tangible long-lived assets that results from their acquisition, lease, construction, development or normal operation. The Association records the present value of the estimated fair value of a liability for an asset retirement obligation in the year in which it is incurred and when a reasonable estimate of fair value can be made. The Association allocates the asset retirement cost to expense using a systematic and rational method over the asset's useful life, and records the accretion of the liability as a charge to the statement of operations. Subsequent to the initial measurement, the asset retirement obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. Changes in the obligation due to the passage of time are recognized in the statement of operations using the interest method. Changes in the obligation due to changes in estimated cash flows are recognized as an adjustment of the carrying amount of the related long-lived asset that is depreciated over the remaining life of the asset.

#### *Tournament Expenses*

Tournament expenses that meet the definition of an asset are recorded as a deferred expense and charged to operations in the year in which the event is to be held. Accordingly, deferred expenses relate to tournaments to be held subsequent to the year end.

#### *Foreign Exchange Translation*

Monetary assets and liabilities of the Association which are denominated in foreign currencies are translated at the year end exchange rates. Revenue and expenses are translated at rates of exchange prevailing on the transaction dates. All of the exchange gains or losses resulting from these other transactions are recognized currently in operations.

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**Canadian Tennis Association - Association Canadienne de Tennis**  
**Notes to Financial Statements**

**December 31, 2013**

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**1. Nature of Operations and Summary of Significant Accounting Policies (continued)**

***Revenue Recognition***

The Association follows the deferral method of accounting for contributions, revenue is recognized in the following manner:

- (i) ticket sales - in the year that the related tournament is held;
- (ii) facility maintenance fees - in the year of expenditure;
- (iii) sponsorship revenue - in the year that contract conditions are met;
- (iv) government grants (operations) - when approval for funding is received and applicable conditions are met; and
- (v) government assistance and construction sponsorship relating to facility construction - over the same period as the related capital assets are amortized.

Where property and equipment, services and/or materials are received as consideration for sponsorship benefits, the assets and the corresponding revenue or deferred revenue are recorded at the fair value of assets given in return. Contributions of the use of land for a specified period of time are reflected at a nominal value in the financial statements.

Free tickets granted for future events are either recorded as deferred revenue or marketing expense depending on the nature of the transaction.

***Derivative Financial Instruments***

The Association enters into forward exchange contracts to hedge the cash flow risk associated with its estimated foreign cash flows. The Association does not enter into forward exchange contracts for trading or speculative purposes. The forward exchange contracts do not qualify for hedge accounting and, as such, are recorded at their fair value as either an asset or liability, with changes in fair value included in the statement of operations in the period in which they occur.

The Association has recognized a loss relating to the fair value of the forward contracts of \$2,138 (2012 - 35,240) in the statement of operations.

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**Canadian Tennis Association - Association Canadienne de Tennis**  
**Notes to Financial Statements**

**December 31, 2013**

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**1. Nature of Operations and Summary of Significant Accounting Policies (continued)**

***Credit Risk***

The Association is subject to credit risk in connection with accounts receivable and forward foreign exchange contracts. The Association minimizes credit risk by reviewing the credit risk of the counterparty to the arrangement and has made any necessary provisions related to credit risk at December 31, 2013.

***Use of Estimates***

The preparation of financial statements 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. Actual results could differ from those estimates.

***Financial Instruments***

Financial instruments are recorded at fair value when acquired or issued. In subsequent periods, equities traded in an active market are reported at fair value, with any unrealized gains and losses reported in operations. In addition, all bonds and guaranteed investment certificates have been designated to be in the fair value category, with gains and losses reported in operations. All other financial instruments are reported at cost or amortized cost less impairment, if applicable. Financial assets are tested for impairment when changes in circumstances indicate the asset could be impaired. Transaction costs on the acquisition, sale or issue of financial instruments are expensed for those items remeasured at fair value at each statement of financial position date and charged to the financial instrument for those measured at amortized cost.

***Allocation of Expenses***

The Association manages various Events and Programs ("programs"). The costs of each program includes the salaries and benefits, supplies, travel and other expenses that are directly related to providing the programs. The Association also incurs a number of general and administrative support expenses that are common to the administration of the Association and each of its programs. Salaries and benefits are allocated on the basis of hours incurred directly for each program. The other expenses are allocated on the basis of estimated consumption attributable to the programs.

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**2. Long-term Receivable**

	2013	2012
Other	\$ 75,000	\$ 75,000
Less: current portion	75,000	75,000
	\$ -	\$ -

**Canadian Tennis Association - Association Canadienne de Tennis**  
**Notes to Financial Statements**

**December 31, 2013**

**3. Related Party Transactions**

The Association is related to Tennis Canada - Stade Jarry ("Stade Jarry") by virtue of control over the composition of the Board of Directors. Stade Jarry has not been consolidated in the Association's financial statements. A financial summary of the non-consolidated accounts of Stade Jarry for the current and previous year is as follows:

	<u>2013</u>	<u>2012</u>
<b>Financial position</b>		
Total assets	\$ 27,342,655	\$ 23,649,530
Total liabilities	28,308,130	24,034,353
<b>Net assets</b>	<u>\$ (965,475)</u>	<u>\$ (384,823)</u>
<b>Results of operations</b>		
Total revenues	\$ 4,414,008	\$ 4,474,867
Total expenses	4,539,099	4,644,912
<b>Deficiency of revenues over expenses</b>	<u>\$ (125,091)</u>	<u>\$ (170,045)</u>
<b>Cash flows</b>		
Cash provided by (used in) operating activities	\$ 1,014,375	\$ (158,907)
Cash used in investing activities	(301,462)	(676,268)
Cash used in financing activities	(709,491)	572,330
<b>Increase (decrease) in cash</b>	<u>\$ 3,422</u>	<u>\$ (262,845)</u>

Transactions between related parties consisted of the following:

	<u>2013</u>	<u>2012</u>
Charges from Tennis Canada - Stade Jarry		
Rent of facility	\$ 395,000	\$ 395,000
Charges to Tennis Canada - Stade Jarry		
Staff, event and administrative expenses	721,888	775,185

Balance due from Tennis Canada - Stade Jarry consists of the following:

Renovations 2002	\$ 700,000	\$ 700,000
Construction 1996	150,000	150,000
Sponsorship and operating	4,370,637	2,576,689
	<u>5,220,637</u>	<u>3,426,689</u>
Less: current portion	-	515,000
	<u>\$ 5,220,637</u>	<u>\$ 2,911,689</u>

The Association is committed to an annual minimum rent of \$395,000 (2012 - \$395,000) for office space and for the use of the facility to host the Rogers Cup event.

The transactions are measured at their exchange amount, which is the amount of consideration established and agreed to by the parties. Related party amounts are non-interest bearing and current receivables are due on demand.

**Canadian Tennis Association - Association Canadienne de Tennis**  
**Notes to Financial Statements**

December 31, 2013

**4. Property and Equipment**

	2013		2012	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Stadium and Centre of Excellence	\$ 40,496,640	\$ 10,484,646	\$ 40,296,640	\$ 9,578,677
Events equipment	4,481,889	3,201,618	4,458,014	2,884,535
Office furniture	645,145	369,923	642,238	321,611
Computer and office equipment	3,014,985	2,312,086	2,728,851	2,072,158
Leasehold improvements	3,046,342	1,608,258	2,748,124	1,286,014
Tennis court air structure	432,868	170,087	432,868	156,257
	<b>\$ 52,117,869</b>	<b>\$ 18,146,618</b>	<b>\$ 51,306,735</b>	<b>\$ 16,299,252</b>
Net book value		<b>\$ 33,971,251</b>		<b>\$ 35,007,483</b>

**5. Deferred Revenue and Expenses**

Deferred revenue and expenses relate to the following tournaments and programs which will be held subsequent to the year end:

	2013		2012	
	Deferred revenue	Deferred expenses	Deferred revenue	Deferred expenses
Rogers Cup - Men	\$ 1,040,832	\$ 46,735	\$ 1,250,601	\$ 40,822
Rogers Cup - Women	3,952,177	17,889	4,695,889	14,662
Development Division	413,091	-	364,112	-
Other	-	136,365	-	143,659
Bequests	18,890	-	45,540	-
Stadium deposits	13,164	-	31,715	-
Founders' Club	-	-	146,075	-
Facility maintenance fund	3,169,268	-	3,253,167	-
	<b>8,607,422</b>	<b>200,989</b>	<b>9,787,099</b>	<b>199,143</b>
Less: current portion	4,993,009	200,989	5,946,490	199,143
	<b>\$ 3,614,413</b>	<b>\$ -</b>	<b>\$ 3,840,609</b>	<b>\$ -</b>

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**Canadian Tennis Association - Association Canadienne de Tennis**  
**Notes to Financial Statements**

December 31, 2013

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**6. Deferred Revenue - Construction**

	2013	2012
Canada-Ontario Infrastructure Program	\$ 5,000,000	\$ 5,000,000
Ontario Sports, Culture and Tourism Partnership	5,000,000	5,000,000
Canadian Tennis Fund	6,000,000	6,000,000
Sponsorship	3,511,506	3,511,506
	<b>19,511,506</b>	19,511,506
Less:		
Accumulated amortization	5,431,715	5,053,735
Current portion	377,981	377,981
	<b>5,809,696</b>	5,431,716
	<b>\$ 13,701,810</b>	\$ 14,079,790

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**7. Asset Retirement Obligation**

The Association has an obligation to return the leased land, upon which the Stadium and Centre of Excellence has been constructed, to York University at the end of the lease term. The lease term expires in July 2027; however, the Association has the right to extend the term of the lease for a further 24 years. Under the lease agreement, York University has the option to compel the Association to demolish the Stadium and Centre of Excellence and return the land in its original condition or to require no remediation on the Association's behalf. The Association expects that the option to extend the lease will be exercised and that the estimated undiscounted cash flows, adjusted for inflation at a rate of 3%, required to settle the obligation at the time the lease expires after the extension would range from nil to \$5,600,000 depending on the decision by York University to require site remediation. If the lease is not extended, it is expected that the estimated undiscounted cash flows, adjusted for inflation at a rate of 3%, required to settle the obligation in July 2027 would range from nil to \$2,800,000 depending on the decision by York University to require site remediation. In the determination of the asset retirement obligation, the undiscounted cash flows have been present-valued using a credit-adjusted risk-free rate of 6%.

Changes in asset retirement obligation is as follows:

Balance, December 31, 2012	\$ 310,100
Accretion expense	18,988
Balance, December 31, 2013	\$ 329,088

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**Canadian Tennis Association - Association Canadienne de Tennis**  
**Notes to Financial Statements**

**December 31, 2013**

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**8. Commitments**

In 2002, the Association entered into a lease agreement with York University for 25 years with the option to renew for a further 24 years for the use of the Rexall Centre. The current annual rent is \$515,000, payable quarterly, with annual adjustments based on a formula tied to ticket prices for the Toronto tournament.

The Association also entered into several short-term agreements to lease equipment.

The future minimum lease payments for the next five years and thereafter are as follows:

2014	\$ 526,609
2015	491,963
2016	490,044
2017	481,071
2018	471,192
Thereafter	<u>3,772,186</u>
	<u>\$ 6,233,065</u>

In January 2011, Tennis Canada - Stade Jarry entered into a loan with the National Bank to fund the renovations to Uniprix Stadium. The loan is due on demand and secured by Tennis Canada - Stade Jarry's assets. The Association has co-signed the loan. Tennis Canada - Stade Jarry will make the loan payments and any potential shortfall will be covered by the Association. In the event of default, the Association would be responsible for the outstanding balance. The total balance outstanding at year end is \$3,687,881 (2012 - \$5,785,555).

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**9. General Support Expenses**

Human resources and overhead costs of \$1,080,147 (2012 - \$774,880) have been allocated as follows:

	<u>2013</u>	<u>2012</u>
Canadian open events	\$ 672,155	\$ 430,880
Development programs	407,992	344,000
	<u>\$ 1,080,147</u>	<u>\$ 774,880</u>

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**Canadian Tennis Association - Association Canadienne de Tennis**  
**Notes to Financial Statements**

**December 31, 2013**

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**10. Financial Instrument Risks**

The organization may be exposed to a variety of financial risks including interest rate risk, and credit risk. The organization manages its risks by forecasting cash flows from operations and anticipating any investing and financing activities. A summary of the various significant risks which the organization is exposed to as a result of their operations is summarized below:

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. The organization is exposed to interest rate risk arising from the possibility that changes in interest rates will affect the value of fixed income denominated investments.

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The organization is exposed to credit risk arising from its accounts receivable.