

Financial Statements

Artscape Non-Profit Homes Inc.

December 31, 2024

Artscape Non-Profit Homes Inc.

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Independent auditor's report

April 28, 2025

To the directors of **Artscape Non-Profit Homes Inc.:**

Opinion

We have audited the accompanying financial statements of **Artscape Non-Profit Homes Inc.** (the "Organization"), which comprise the statement of financial position as at December 31, 2024 and the statements of operations and changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at December 31, 2024 and the results of its operations and its cash flows for the year then ended in accordance with the basis of accounting described in Note 2 to the financial statements.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Organization in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - Basis of Accounting and Restriction on Use

Without qualifying our opinion, we draw attention to Note 2 in the financial statements which describes the basis of accounting. The financial statements are prepared to assist the Organization in complying with the City of Toronto's guidelines for Social Housing Providers. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the members of the Organization and the City of Toronto and should not be used by parties other than the members of the Organization and the City of Toronto.

Other matter

The financial statements for the year ended December 31, 2023 were audited by another auditor who expressed an unmodified opinion on those financial statements on October 7, 2024.



Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting described in Note 2 to the financial statements 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.

In preparing the financial statements, management is responsible for assessing the Organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organization or cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organization's financial reporting process.

Auditor's Responsibility for the Audit of Financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Chartered Professional Accountants
Licensed Public Accountants
Toronto, Ontario



Artscape Non-Profit Homes Inc.
Statement of Financial Position

December 31	2024	2023
	\$	\$
ASSETS		
Current		
Cash	170,583	62,442
Accounts receivable	90,064	36,655
Prepaid expenses		10,389
Capital reserve investment funds [note 4]	569,066	505,964
Due from City of Toronto Social Housing [note 5]	<u>73,874</u>	<u></u>
	903,587	615,450
Capital assets [note 6]	2,054,580	2,369,937
	<u>2,958,167</u>	<u>2,985,387</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	188,466	28,152
Tenant deposits and rent received in advance	39,917	35,635
Deferred revenue - Strong start mortgage subsidy	7,765	7,765
Current portion of long-term debt [note 8]	859,569	332,666
Due to City of Toronto Social Housing [note 5]		44,514
Due to related party [note 7]	<u>50,000</u>	<u>3,230</u>
	<u>1,145,717</u>	<u>451,962</u>
Long-term debt [note 8]	<u>858,362</u>	<u>1,941,050</u>
	<u>2,004,079</u>	<u>2,393,012</u>
NET ASSETS		
General Fund - unrestricted	355,947	65,097
Externally Restricted Funds:		
Capital Reserve Fund [note 9]	289,562	271,633
Capital Replacement Reserve Fund [note 9]	<u>308,579</u>	<u>255,645</u>
	954,088	592,375
	<u>2,958,167</u>	<u>2,985,387</u>

see accompanying notes

On behalf of the Board:

Director  Director 

Artscape Non-Profit Homes Inc.

Statement of Operations and Changes in Net Assets

Year ended December 31	2024	2023
	\$	\$
Revenue		
City of Toronto social housing subsidy - regular [note 5]	368,804	290,913
Strong start mortgage subsidy	<u>93,178</u>	<u>93,178</u>
Total subsidy	461,982	384,091
Rental income - Market units	307,836	214,405
Rental income - Rent-geared-to-income units	175,793	245,785
Other income	<u>230,870</u>	<u>7,603</u>
	<u>1,176,481</u>	<u>851,884</u>
Expenses		
City of Toronto social housing subsidy allocated to capital reserve and capital replacement reserve fund	78,470	56,994
Property expenses	243,940	302,574
Mortgage interest [note 8]	77,926	93,300
Realty taxes	61,977	60,439
Administration and contract fees	399,387	83,578
Amortization	<u>315,357</u>	<u>299,801</u>
	<u>1,177,057</u>	<u>896,686</u>
Deficiency of revenue over expenses from operations	(576)	(44,802)
Derecognition of loans [note 8]	<u>291,426</u>	<u> </u>
Excess (deficiency) of revenue over expenses	290,850	(44,802)
General Fund - unrestricted, beginning of year	65,097	109,899
General Fund - unrestricted, end of year	<u>355,947</u>	<u>65,097</u>

see accompanying notes

Artscape Non-Profit Homes Inc.
Statement of Cash Flows

Year ended December 31	2024	2023
	\$	\$
OPERATING ACTIVITIES		
Excess of revenue over expenses for the year	290,850	(44,802)
Items not requiring an outlay (receipt) of cash -		
Amortization of capital assets	315,357	299,801
Derecognition of loans [note 8]	(291,426)	
Unrealized (gain) loss	<u>15,812</u>	<u>(15,822)</u>
	330,593	239,177
Changes in non-cash working capital items -		
(Increase) decrease in accounts receivables	(53,409)	23,718
(Increase) decrease in prepaid expenses	10,389	(268)
(Increase) decrease in due from City of Toronto Social Housing	(73,874)	41,612
Increase (decrease) in accounts payable and accrued liabilities	160,314	(14,550)
Increase (decrease) in tenant deposits and rent received in advance	4,281	3,584
Increase (decrease) in due to City of Toronto Social Housing	(44,514)	44,514
Increase (decrease) in due to related party	<u>46,770</u>	<u>(103,011)</u>
	380,550	234,776
FINANCING ACTIVITIES		
Payments on long-term debt	(264,359)	(282,492)
INVESTING ACTIVITIES		
Purchase of capital reserve investment funds, net of purchases	<u>(8,050)</u>	<u>26,096</u>
Net change in cash during the year	108,141	(21,620)
Cash, beginning of year	62,442	84,062
Cash, end of year	170,583	62,442

see accompanying notes

Artscape Non-Profit Homes Inc.
Notes to Financial Statements

December 31, 2024

1. NATURE OF OPERATIONS

Artscape Non-Profit Homes Inc. (the "Organization") was incorporated as a not-for-profit corporation on July 29, 1994 without share capital. The Organization was created specifically to develop and manage those current and future projects intended to meet the affordable housing and live/work studio needs of low and middle income artists of all disciplines.

The Organization is incorporated under the Corporations Act, Ontario as an organization without share capital and is registered as a not-for-profit organization under paragraph 149(1)(l) of the Income Tax Act and, as such, is exempt from income taxes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared in accordance with the significant accounting policies set out below to comply with the City of Toronto's guidelines for Social Housing Providers. The basis of accounting used in these financial statements materially differs from Canadian accounting standards for not-for-profit organizations ("ASNPO") as follows:

- a) Capital assets, consisting of the building and land at 900/906/910 Queen St. West and the leasehold improvement and land at the Artscape Wychwood Barns, are recorded at cost, less government and related grants and donations.
- b) Capital assets related to the housing project that are purchased after the initial construction of the project are charged against the Capital Reserve Fund.
- c) Amortization on the buildings is provided at a rate equal to the annual principal reduction of the related mortgage, rather than over the estimated useful lives of the assets.
- d) The amount of subsidy recorded on the financial statements is equal to the amount of subsidy earned, as calculated in the Annual Information Return.
- e) The annual allocation of the City of Toronto social housing subsidy that is allocated to the Capital Reserve and Capital Replacement Reserve Funds are shown as an operating expense in the statement of operations.

ASNPO has been used in all other respects in the preparation of these financial statements.

Artscape Non-Profit Homes Inc.
Notes to Financial Statements

December 31, 2024

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund accounting

General Fund

The General Fund reflects the assets, liabilities, net assets, revenue and expenses not otherwise restricted.

Externally Restricted Funds

Capital Reserve Fund

Under the terms of the Housing Services Act, the Organization was required to establish a Capital Reserve Fund in order to finance capital asset purchases. The investments in the fund are to be maintained and accounted for separately from the Organization's other cash and investments and the income earned on these investments, both realized and unrealized, is to be allocated to the fund.

Capital Reserve Replacement Fund

Under the affordable housing agreement for Artscape Wychwood Barns, the Organization is required to establish a replacement reserve fund of 8% of the project's annual revenue for capital purposes.

Revenue recognition

The Organization follows the deferral method of accounting for contributions. 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. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred.

Financial instruments

The Organization initially measures its financial assets and liabilities at fair value. The Organization subsequently measures all its financial assets and liabilities at amortized cost except for investments in fixed income that are quoted in an active market, which are measured at fair value.

Financial assets and liabilities measured at amortized cost include cash and cash equivalents, accounts receivable, capital reserve investment funds, due to/from City of Toronto Social housing, accounts payable and accrued liabilities, long-term debt.

The Organization has no other financial assets or liabilities measured at fair value.

Artscape Non-Profit Homes Inc.
Notes to Financial Statements

December 31, 2024

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment

Financial assets measured at amortized cost are assessed for indicators of impairment. When there is indication of an impairment, the carrying amount of the asset is reduced directly or through the use of an allowance account. The amount of the reduction is recognized in the statement of revenue and expense. A previously recognized impairment loss may be reversed to the extent of the improvement, directly or by adjusting the allowance account, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in the statement of revenue and expense.

Cash and cash equivalents

Cash and cash equivalents consist of unrestricted cash and short-term highly liquid investments with terms to maturity of less than three months.

Capital assets

Capital assets are recorded at cost less government and related grants and donations. Additions to the related housing project are charged against the Capital Reserve Fund. Amortization commences when assets are placed in operation. Amortization is provided at a rate equal to the annual principal reduction of the related mortgage.

When conditions indicate that a capital asset is impaired, the net carrying amount of the capital asset is written down to the asset's fair value or replacement cost. Any write-downs of capital assets are accounted for as an expense in the statement of operations. A write-down is not reversed.

Controlled not-for-profit organizations

Controlled not-for-profit organizations are disclosed, including specific financial information, details of any restrictions and significant differences in accounting policies, but not consolidated in the financial statements.

Use of estimates

The preparation of the financial statements in accordance with the basis of accounting described in Note 2 to the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management believes that the estimates utilized in preparing these financial statements are reasonable and prudent. The significant items subject to such estimates and assumptions include valuation allowance for accounts receivable. Actual results could differ from these estimates.

Artscape Non-Profit Homes Inc.

Notes to Financial Statements

December 31, 2024

3. CHANGE IN ACCOUNTING POLICY

The Organization changed its revenue recognition policy from using the restricted fund method to the deferral fund method. The deferral method better reflects and presents the Organization's activity. The change in accounting policy resulted in no changes for the current year and no prior period figures were restated.

4. CAPITAL RESERVE INVESTMENT FUNDS

Capital reserve investment funds comprise the following:

	2024	2023
	\$	\$
Fixed income	369,336	323,064
Cash	199,730	182,900
	569,066	505,964

5. CITY OF TORONTO HOUSING SUBSIDY

- a) The Housing Service Act for the Municipal Social Housing Programs of the City of Toronto (the “Act”) applies to the project at 900/906/910 Queen St. West, Toronto, through to September 1, 2030. Under the agreement, the City provides a monthly subsidy to the Organization, of \$13,140 (2024 - \$14,290). The monthly subsidy to be provided by the City of Toronto in 2025 is set at \$13,780.
- b) The Organization has also entered into an affordable housing agreement with the City of Toronto in respect of the 26 residential units at Artscape Wychwood Barns (the residential component of the Barns). The City supplements the Organization for the difference between market rents and the actual rents received by the Organization. The City provided a monthly rent supplement of \$17,526 (2024 - \$17,147). The monthly subsidy to be provided by the City of Toronto in 2025 is set at \$12,954.

Artscape Non-Profit Homes Inc.
Notes to Financial Statements

December 31, 2024

5. CITY OF TORONTO HOUSING SUBSIDY (continued)

The total subsidies received under a) and b) for fiscal 2024 and 2023 are broken down as follows:

	900/906/910 Queen St. West subsidy	Artscape Wychwood Barns rent supplement	Total \$
Year ended December 31, 2024			
City of Toronto monthly subsidy/rent supplement	157,680	210,312	367,992
Year-end settlement	12,264	(11,452)	812
Total	169,944	198,860	368,804

	900/906/910 Queen St. West subsidy	Artscape Wychwood Barns rent supplement	Total \$
Year ended December 31, 2023			
City of Toronto monthly subsidy/rent supplement	171,480	205,764	377,244
Year-end settlement	(16,829)	(69,502)	(86,331)
Total	154,651	136,262	290,913

The City requires the Organization prepare an Annual Information Return, which is a summary of the Organization's financial and operating information. The total subsidy entitlement is calculated based on actual operation and is compared to the actual subsidy received to determine whether any subsidy amounts are receivable or repayable at year end.

It has been determined that for the year ended December 31, 2024, the Organization has an underfunded subsidy of \$812 (2024 - \$86,331 overfunded subsidy) from the City that is outstanding from the prior year.

Artscape Non-Profit Homes Inc.
Notes to Financial Statements

December 31, 2024

5. CITY OF TORONTO HOUSING SUBSIDY (continued)

The cumulative net amount receivable to the City of Toronto as at December 31, 2024 is \$73,802 (2024 - \$44,514 net payable).

	2024 \$	2023 \$
2020 Year-end settlement		22,477
2021 Year-end settlement		13,257
2022 Year-end settlement		(25,354)
2023 Year-end settlement	(86,331)	(86,331)
2023 December monthly subsidy		31,437
2024 Year-end settlement	812	
2024 December monthly subsidy	30,666	
2024 Transitional funding	128,655	
	73,802	(44,514)

6. CAPITAL ASSETS

	Cost \$	Accumulated amortization \$	Net book value 2024 \$	2023 \$
900/906/910 Queen St. West, Toronto				
Building	2,759,199	2,006,179	753,020	869,315
Less: grants and restricted donations	(518,143)		(518,143)	(518,143)
Land	522,600		522,600	522,600
	2,763,656	2,006,179	757,477	873,772
Artscape Wychwood Barns				
Leasehold improvements	6,717,210	2,203,303	4,513,907	4,712,969
Land	627,472		627,472	627,472
Less: grants and restricted donations	(3,216,804)		(3,216,804)	(3,216,804)
Donated Land	(627,472)		(627,472)	(627,472)
	3,500,406	2,203,303	1,297,103	1,496,165
	6,264,062	4,209,482	2,054,580	2,369,937

Artscape Non-Profit Homes Inc.
Notes to Financial Statements

December 31, 2024

6. CAPITAL ASSETS (continued)

Artscape Wychwood Barns - residential portion

This project was completed in 2008. Upon completion, the residential component of the project, including all costs, related grants and debt financing, was transferred from Toronto Artscape Inc. ("Artscape") to the Organization which, as a non-profit housing provider, administers the residential component as part of its arrangement with the Canada-Ontario Affordable Housing Program and the Affordable Housing Office of the City of Toronto. The residential component consists of 26 units of affordable housing at Artscape Wychwood Barns.

7. RELATED PARTY TRANSACTIONS

ANPHI Affordable Homes Inc. ("AAHI")

The Organization established AAHI on December 8th, 2023, with the objectives to provide and operate housing accommodation, with or without any public space, recreational facilities, and commercial space or building appropriate thereto, primarily for persons of low or modest income.

The Organization is a founding member of AAHI and all directors for AAHI's Board are existing Board Members of the Organization. Accordingly, the Organization is considered to control AAHI.

Amounts receivable from or payable to the related parties are derived in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. As at December 31, 2024, the Organization had amounts payable to AAHI of \$50,000.

AAHI audited financial statements are summarized below:

	2024 \$	2023 \$
Financial Position		
Assets	<u>11,422,412</u>	<u>NIL</u>
Liabilities	11,545,788	NIL
Net assets (deficit)	<u>(123,376)</u>	<u>NIL</u>
	<u>11,422,412</u>	NIL

Artscape Non-Profit Homes Inc.
Notes to Financial Statements

December 31, 2024

7. RELATED PARTY TRANSACTIONS (continued)

	2024	2023
	\$	\$
Results of Operations		
Revenues	1,840,599	NIL
Expenses	<u>2,001,556</u>	<u>NIL</u>
Deficiency of revenues over expenses	(160,957)	NIL
Cash Flows		
Cash provided by (used in) operating activities	325,392	NIL
Cash provided by (used in) financing activities	(199,660)	NIL
Cash provided by (used in) investing activities	<u>37,741</u>	<u>NIL</u>
Increase (decrease) in cash	163,473	NIL

8. LONG-TERM DEBT

	2024	2023
	\$	\$
900 Queen St. West		
Peoples Trust Company mortgage bearing interest at 2.15% with blended monthly principal and interest payments of \$10,888, maturing September 1, 2025. The mortgage is secured by the property.	696,637	811,047
Elevator Retrofit Loan for the purpose of repairing the freight elevator at 900 Queen St. West the repayment of the loan is deferred until the first mortgage is fully paid out in 2030, as allowed under clause 3 of subsection 173(2) of the Social Housing Reform Act. The loan is non-interest bearing and unsecured.	60,840	60,840
	757,477	871,887

Artscape Non-Profit Homes Inc.
Notes to Financial Statements

December 31, 2024

8. LONG-TERM DEBT (continued)

	2024	2023
	\$	\$
Balance carried forward from page 14	757,477	871,887
Artscape Wychwood Barns		
TD Canada Trust 20-year mortgage bearing interest at 5.98%, maturing April 1, 2029, with blended monthly principal and interest payments of \$17,941 beginning May 1, 2009. The property is secured against the leaseholds of the project at Wychwood Barns with a postponement agreement from the City of Toronto.	960,454	1,114,063
City of Toronto Sustainable Energy Fund loan totalling \$700,000 allocated between the residential portion (Organization \$400,000) and the arts and green components (Artscape \$300,000) of the barns. The loan is non-interest bearing (except in case of payment default) and is to be repaid in 240 equal monthly installments of \$2,917 beginning May 1, 2009, with Organization's share being \$1,667. Security on the loan is a promissory note provided by Artscape. The loan matures on April 1, 2029 and is unsecured.	NIL	113,349
Green Municipal Fund loan totalling \$600,000 allocated between the residential component (Organization \$463,280) and the arts and green components (Artscape \$136,720) of the barns. The loan bears interest at the Government of Canada bond rate, minus 1.5%, with semi-annual blended principal and interest payments of \$18,808 (Organization's share \$14,522) beginning in February 2010. The loan matures in August 20, 2029 and is unsecured.	NIL	174,417
	1,717,931	2,273,716
Less principal repayments due within one year included in current liabilities	859,569	332,666
	858,362	1,941,050

Artscape Non-Profit Homes Inc.

Notes to Financial Statements

December 31, 2024

8. LONG-TERM DEBT (continued)

Interest expense of \$77,926 (2023 - \$93,300) was paid during the year on the long-term debt.

On January 11, 2024, Artscape formally entered receivership. Due to the ongoing receivership, there is no further obligation for the Organization to repay the City of Toronto Sustainable Energy Fund loan and Green Municipal Fund loan. These loans were derecognized during the year and are recognized in the statement of operations.

Principal payments due in each of the next five years and thereafter are as follows:

	\$
2025	859,569
2026	172,821
2027	183,311
2028	194,437
2029	246,953
Thereafter	60,840
	1,717,931

9. CAPITAL RESERVE FUND AND REPLACEMENT RESERVE FUND

Capital Reserve Fund - 900/906/910 Queen St. West, Toronto

The Housing Services Act requires the Organization to participate in a system for pooling capital reserves for investment purposes. This system requires that the Organization’s Capital Reserve Fund be invested in Social Housing Investment Funds managed by Encasa Financial Inc., with WorldSource Financial Management Inc. as portfolio advisor.

In 2024, the Organization was required to allocate an amount of \$22,961 (2024 - \$22,266) from the regular subsidy at 900/906/910 Queen St. West from the City of Toronto to the Capital Reserve Fund. Commencing in January 2025, the Organization will be required to allocate \$23,643 from the regular subsidy to the Capital Reserve Fund specific to 900 Queen St. West.

In addition, each year the Organization is required to pay 50% of its operating surplus from the 900/906/910 Queen St. West social housing operations to the City of Toronto. However, in accordance with the Toronto City Guideline 2013-3, the Organization is allowed to retain \$100 per unit of its annual net income that it would normally repay to the City of Toronto, or the total share of operating income owed to the City, whichever is less, providing that this amount is allocated to the Capital Reserve Fund.

Artscape Non-Profit Homes Inc.
Notes to Financial Statements

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9. CAPITAL RESERVE FUND AND REPLACEMENT RESERVE FUND (continued)

	2024 \$	2023 \$
Balance, beginning of year	271,633	233,607
City of Toronto Social Housing - portion allocated from regular subsidy	22,961	22,266
Income earned and unrealized gains (losses)	(5,032)	15,760
Balance, end of year	289,562	271,633

Capital Replacement Reserve Fund - Artscape Wychwood Barns

Under the affordable housing agreement for Artscape Wychwood Barns, the Organization is required to establish a replacement reserve fund of 8% of the project's annual revenue. One-half of this amount (4% of revenue) is to be allocated to a separate reserve account maintained at the Toronto Dominion Bank as required by the Canada Mortgage and Housing Corporation. The remainder of the fund is managed by WorldSource Financial Management Inc.

For 2024, the Organization has set up a provision of \$55,509 (2023 - \$34,728) towards the Capital Replacement Reserve Fund, in accordance with the above agreement with City of Toronto.

	2024 \$	2023 \$
Balance, beginning of year	255,645	220,855
Affordable Housing Program - provisions for capital replacement reserve	55,509	34,728
Income earned and unrealized gains (losses)	(2,575)	62
Balance, end of year	308,579	255,645

Artscape Non-Profit Homes Inc.
Notes to Financial Statements

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10. COMMITMENTS

Artscape Wychwood Barns

The property is leased from the City of Toronto under terms which require annual rental payments of \$1. The lease is for a term of 50 years, less one day, and commenced on March 28, 2006.

11. FINANCIAL INSTRUMENT RISK EXPOSURE

The Organization is exposed to various risks through its financial instruments including credit risk, liquidity risk and market risk. There have been no significant changes in risk exposure since the prior period.

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's financial assets that are exposed to credit risk consist primarily of accounts receivable and due from City of Toronto Social Housing. Credit risk associated with due from City of Toronto Social Housing are minimized as it is from a government agency. Credit risk associated with accounts receivable is minimized due to the Organization's large and diverse client base. The Organization maintains allowances for potential credit losses and any such losses to date have been within management's expectations.

Liquidity risk

Liquidity risk is the risk that the Organization will encounter difficulty in meeting obligations associated with financial liabilities. The Organization is exposed to liquidity risk primarily arising from its accounts payable and accrued liabilities and long-term debt. The Organization expects to meet these obligations as they come due by generating sufficient cash flows from operations.

Artscape Non-Profit Homes Inc.
Notes to Financial Statements

December 31, 2024

11. FINANCIAL INSTRUMENT RISK EXPOSURE (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, other price risk and interest rate risk. The Organization is exposed to interest rate risk.

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 on its Capital Reserve Investment Fund and its long-term debt. Changes in interest rates can create fluctuations in interest payments and cash flows. The Organization does not use derivative instruments to mitigate this risk.