

**MOTOR VEHICLE DEALERS
COMPENSATION FUND**

FINANCIAL STATEMENTS

OCTOBER 31, 2020

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Audit. Tax. Advisory.

Independent Auditor's Report

To the Board of Trustees and Participants in the
Motor Vehicle Dealers Compensation Fund

Opinion

We have audited the financial statements of the Motor Vehicle Dealers Compensation Fund (the "Fund"), which comprise the statement of financial position as at October 31, 2020 and the statement of changes in unrestricted net assets, statement of operations and statement of 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 Fund as at October 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations ("ASNPO").

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 Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. 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.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with ASNPO, 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 Fund'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 Fund or cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the 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 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 risks 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 Fund'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 the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund'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 Fund 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.

McGovern Hurley LLP

McGovern Hurley LLP

**Chartered Professional Accountants
Licensed Public Accountants**

Toronto, Ontario
March 24, 2021

MOTOR VEHICLE DEALERS COMPENSATION FUND
STATEMENT OF FINANCIAL POSITION
AS AT OCTOBER 31, 2020

	October 31, 2020 \$	October 31, 2019 \$
ASSETS		
CURRENT		
Cash and cash equivalents (Note 2)	3,965,259	352,035
Accounts receivable (Note 5)	22,278	16,496
Accrued interest receivable	9,815	5,109
Prepaid expenses	<u>565</u>	<u>6,019</u>
TOTAL CURRENT ASSETS	3,997,917	379,659
INVESTMENTS (Note 10)	<u>5,727,561</u>	<u>5,836,617</u>
TOTAL ASSETS	<u><u>9,725,478</u></u>	<u><u>6,216,276</u></u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	<u>58,652</u>	<u>19,292</u>
TOTAL LIABILITIES	<u>58,652</u>	<u>19,292</u>
NET ASSETS		
UNRESTRICTED NET ASSETS (Note 3)	<u>9,666,826</u>	<u>6,196,984</u>
TOTAL NET ASSETS AND LIABILITIES	<u><u>9,725,478</u></u>	<u><u>6,216,276</u></u>

Contingencies (Note 4)

APPROVED ON BEHALF OF THE BOARD OF TRUSTEES:


_____, Chair


_____, Vice Chair

MOTOR VEHICLE DEALERS COMPENSATION FUND
STATEMENT OF CHANGES IN UNRESTRICTED NET ASSETS
FOR THE YEAR ENDED OCTOBER 31, 2020

	2020	2019
	\$	\$
Balance, beginning of the year	6,196,984	6,142,487
Excess of revenues over expenses	<u>3,469,842</u>	<u>54,497</u>
Balance, end of the year	<u><u>9,666,826</u></u>	<u><u>6,196,984</u></u>

MOTOR VEHICLE DEALERS COMPENSATION FUND
STATEMENT OF OPERATIONS
 FOR THE YEAR ENDED OCTOBER 31, 2020

	2020 \$	2019 \$
REVENUES		
Participant fees	111,640	153,000
Recoveries	52,551	66,752
Other contributions (Note 5)	<u>3,731,782</u>	<u>243,835</u>
TOTAL REVENUES	<u>3,895,973</u>	<u>463,587</u>
EXPENSES		
Claims	400,039	258,152
Salaries and benefits (Note 5)	241,057	238,430
Governance (Note 5)	97,312	120,862
Investment management fees (Note 5)	32,853	33,201
Occupancy (Note 5)	14,400	12,251
Statutory trustee fees	9,970	9,454
Professional fees (Note 5)	9,778	23,048
Insurance	5,455	5,832
Office and general (Note 5)	<u>1,852</u>	<u>1,529</u>
TOTAL EXPENSES	<u>812,716</u>	<u>702,759</u>
Excess (deficiency) of revenues over expenses	<u>3,083,257</u>	<u>(239,172)</u>
OTHER INCOME		
Investment and other income	243,371	371,642
Fair value change in investments	<u>143,214</u>	<u>(77,973)</u>
TOTAL OTHER INCOME	<u>386,585</u>	<u>293,669</u>
EXCESS OF REVENUES OVER EXPENSES	<u><u>3,469,842</u></u>	<u><u>54,497</u></u>

MOTOR VEHICLE DEALERS COMPENSATION FUND
STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED OCTOBER 31, 2020

	2020	2019
	\$	\$
CASH PROVIDED BY:		
OPERATING ACTIVITIES		
Excess of revenues over expenses, for the year	3,469,842	54,497
Non-cash items		
Change in fair value of investments	(279,156)	(248,092)
Changes in non-cash working capital		
Accounts receivable	(5,782)	(6,517)
Accrued interest receivable	(4,706)	546
Prepaid expenses	5,454	378
Accounts payable and accrued liabilities	<u>39,360</u>	<u>(7,389)</u>
Cash used in operating activities	<u>3,225,012</u>	<u>(206,577)</u>
INVESTING ACTIVITIES		
Cash provided by investing activities (net)	<u>388,212</u>	<u>252,786</u>
CHANGE IN CASH DURING THE YEAR	3,613,224	46,209
CASH AND CASH EQUIVALENTS , beginning of year	<u>352,035</u>	<u>305,826</u>
CASH AND CASH EQUIVALENTS , end of year	<u><u>3,965,259</u></u>	<u><u>352,035</u></u>

The Motor Vehicle Dealers Compensation Fund (the "Fund") was established July 1, 1986 under the Motor Vehicle Dealers Act (the "Act"), which was replaced by the Motor Vehicle Dealers Act 2002. The Fund was established to stand in place of registered motor vehicle dealers in Ontario (the "Participants") where a Participant has refused, failed or been unable to pay a claim registered against that Participant. Claims are submitted by consumers and approved by the Board of Trustees (the "Board"). The Fund pays claims to consumers up to a maximum of \$45,000 per claim.

The affairs of the Fund are overseen by the Board and the Fund is managed by a trust corporation appointed by the Board to act as the Trustee (the "Trustee").

In accordance with the Act, it is compulsory for motor vehicle dealers to pay an initial payment to the Fund in order to obtain registration in Ontario.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation:

The financial statements have been prepared using Canadian accounting standards for not-for-profit organizations.

Outlined below are those accounting policies considered particularly significant.

Cash and Cash Equivalents:

Cash and cash equivalents consist of cash on hand, balances with banks, and highly liquid investments with original maturities of less than 90 days or cashable investments. The Fund invests excess cash in guaranteed investment certificates maintained in high credit quality institutions

Claims:

Claims are recognized in the accounts at the time of approval by the Board. Amounts recoverable to offset claims paid are recorded when received.

Revenue Recognition:

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

Other Contributions represent the estimated fair value of shared services and occupancy costs received from a related entity whereby the Fund has not been requested to pay for such services or is to be reimbursed for such expenses. Fair value has been determined based on an allocation of cost as incurred by the related entity. See Note 5.

Investment income is recognized on an accrual basis.

Use of Estimates:

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those reported. The Fund's estimates and judgments subject to the most uncertainty are related to the estimated fair value of certain pooled fund investments, and contingent liabilities (Note 4).

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Instruments:

The Fund initially measures its financial assets and financial liabilities at fair value. It subsequently measures all its financial assets and financial liabilities at amortized cost, except for investments, which it chose to measure at fair value. Changes in fair value are recognized in excess of revenues over expenses for the year.

Financial assets measured at amortized cost include dash and cash equivalents, accounts receivable, accrued interest receivable and prepaid expenses. Financial liabilities measured at amortized cost include accounts payable and accrued liabilities.

Financial instruments measured at amortized cost are adjusted by financing fees and transaction costs. All other transaction costs are recognized in excess of revenues over expenses in the period incurred.

2 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following:

	<u>2020</u>	<u>2019</u>
	\$	\$
Cash - operating	297,298	351,518
Cash - investment	63,565	517
Cash equivalents	<u>3,604,396</u>	<u>-</u>
Total	<u>3,965,259</u>	<u>352,035</u>

As at October 31, 2020, the cash equivalents comprised of a cashable guaranteed investment certificate bearing interest at 1.90% per annum (2019 - 0.00%)

3. UNRESTRICTED NET ASSETS

The capital of the Fund is comprised of contributions by Participants and income earned on investments. Where at any time the net assets of the Fund are less, or are anticipated to be less than \$3,000,000 due to payments or proposed payments to claimants, the board may require each Participant to pay such additional amounts as is considered necessary to bring the net assets of the Fund up to at least \$3,000,000.

4. CONTINGENCIES

Several motor vehicle dealers declare bankruptcy, become insolvent, or otherwise end their operations each year. The Fund's liability related to such bankruptcies, if any, cannot be reasonably estimated and no related provision has been made in the financial statements.

Novel Coronavirus ("COVID-19")

Since March 2020, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans and self-imposed quarantine periods, have caused material disruption to businesses globally resulting in an economic slowdown. The Fund cannot accurately predict the continued impact COVID-19 will have on its operations and the ability of others to meet their obligations with the Fund.

5. RELATED PARTY TRANSACTIONS

The Fund shares office space and administrative services with the Ontario Motor Vehicle Industry Council (the "Council"). The Fund and the Council are related parties as the Council has representation on the Fund's Board. Included in the Fund's expenses are shared expenses with the Council of \$241,057 (2019 - \$238,430) relating to salaries and benefits, \$14,400 (2019 - \$12,250) relating to occupancy expenses, \$8,249 (2019 - \$nil) relating to professional fees, \$84,833 (2019 - \$nil) relating to governance expenses, \$25,039 (2019 - \$nil) relating to investment management fees and \$1,656 (2019 - \$nil) related to general and administrative expenses.

Included in accounts receivable at October 31, 2020 is \$14,256 (2019 - \$nil) owing from the Council. This amount relates to registration fees owing to the Fund at October 31, 2020.

Effective September 1, 2017, the Council suspended billings of shared expenses to the Fund. The suspension of billings to the Fund will remain effective until further notice from the Council. Effective September 1, 2019, the Council agreed to pay all operating expenses (including administrative, board and public awareness costs) of the Fund for a five year period ending August 31, 2024.

On December 4, 2019, The Board of Trustees agreed to accept the Council's voluntary offer to reimburse the Fund in the amount of \$3,349,701, representing amounts which the Council billed to the Fund from 1998 to 2017. These amounts relate to the Fund's share of salaries and benefits, occupancy and general office expenses, and are included as "Other contributions" within revenue.

During 2020, shared expenses with an estimated fair value of \$382,081 (2019 - \$243,835), \$247,904 relating to salaries and benefits (2019 - \$231,585), \$8,249 (2019 - \$nil) relating to professional fees, \$14,400 (2019 - \$12,250) relating to occupancy, \$84,833 (2019 - \$nil) relating to governance expenses, \$25,069 (2019 - \$nil) relating to investment management fees and \$1,656 (2019 - \$nil) related to general and administrative expenses have been included in the Fund's expenses at their estimated fair values and recorded as "Other contributions" within revenue.

All transactions with related parties have occurred in the normal course of operations and were measured at the exchange amount, unless otherwise noted, which was the amount of consideration established and agreed to by the related parties.

6. DONATED PROPERTY AND SERVICES

On an annual basis, the Fund may receive additional incidental donated services from the Council in addition to those described in Note 5. As similar services are not normally purchased by the Fund and due to the difficulty in determining their fair value, donated services not described in Note 4 are not recognized in these statements.

7. INCOME TAXES

The Fund is a trust within the meaning of Section 149(1)(w) of the Income Tax Act (Canada) and as such, is exempt from income taxes.

8. COMPARATIVE FIGURES

Certain comparative figures for the year ended October 31, 2020 have been reclassified to conform to presentation adopted for the current year.

9. FINANCIAL INSTRUMENTS

Financial Risk Factors

The Fund is exposed to various risks through its financial instruments.

(a) Interest rate risk

The Fund has cash balances, investments and non interest-bearing debt. The Fund's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its financial institutions in accordance with its policy. The Fund periodically monitors the investments it makes and is satisfied with the credit-worthiness of its financial institutions. Included in investments are fixed income securities with interest rates ranging from 0.75% to 7.35% with maturity dates ranging from 2021 to 2048. The Fund has minimal interest rate risk with respect to its cash equivalents as they are held in fixed rate of interest guaranteed investment certificated that are cashable at any time.

(b) Price risk

Market price risk arises as a result of investing in equity securities and fixed income securities. Fluctuations in market prices expose the Fund to a risk of loss. The Fund manages market price risk by substantially investing in equities and fixed income pooled mutual funds that meet specific investment criteria established and approved by the Board of Trustees and designed to adequately diversify the Fund's investments to reduce exposure to market price risk. Professional investment managers invest and manage the investment portfolio in accordance with the Fund's investment policy statement. Investments are recorded at estimated fair value or quoted market value, as applicable. Fair value estimates are made at a specific point in time and may not be reflective of future value. See Note 10.

The Fund's investments are subject to fair value fluctuations. As at October 31, 2020, if the fair value of the investments had decreased/increased by 10% with all other variables held constant, excess of revenue over expenses for the year ended October 31, 2020 would have been approximately \$572,756 lower/higher. Similarly, as at October 31, 2020, reported unrestricted net assets would have been approximately \$572,756 lower/higher as a result of a 10% decrease /increase in the fair value of investments.

(c) Liquidity risk

Liquidity risk is the risk of being unable to meet cash requirements or fund obligations as they become due. The Fund manages its liquidity risk by monitoring forecasted and actual cash flows and by holding financial assets that can be readily converted into cash. All the Funds' investments are expected to be readily realizable as they can be quickly liquidated at amounts close to their fair value. There has been no significant change to risk exposure during 2020 and 2019.

(d) Credit risk

Credit risk arises from the potential that a counterparty will fail to perform its obligations. The Fund is exposed to credit risk with respect to the financial institutions with which it transacts. The Fund believes its credit risk is minimal.

MOTOR VEHICLE DEALERS COMPENSATION FUND
NOTES TO THE FINANCIAL STATEMENTS
 OCTOBER 31, 2020

10. INVESTMENTS

Investments, recorded at their estimated fair value, are comprised of the following:

	<u>2020</u>		<u>2019</u>	
	Cost \$	Estimated Fair Value \$	Cost \$	Estimated Fair Value \$
Mutual Funds	3,434,171	5,114,321	3,648,737	5,195,803
Fixed Income	516,329	548,243	519,313	541,007
Other	<u>64,947</u>	<u>64,997</u>	<u>99,640</u>	<u>99,807</u>
Total	<u><u>4,015,447</u></u>	<u><u>5,727,561</u></u>	<u><u>4,267,690</u></u>	<u><u>5,836,617</u></u>

The cumulative unrealized gain on investments at October 31, 2020 is \$1,712,146 (2019 - \$1,568,931).

Fixed income investments bear interest at rates ranging from 0.75% to 7.35%.

Mutual funds represent public mutual funds which are traded on a daily basis. The fair market value of these funds are estimated based on their book value per share.

Other investments are comprised of Government of Canada bonds that bear interest at a nominal rate (2019 - same).