

**MOTOR VEHICLE DEALERS
COMPENSATION FUND**

FINANCIAL STATEMENTS

OCTOBER 31, 2018

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Motor Vehicle Dealers Compensation Fund, which comprise the statement of financial position as at October 31, 2018, and the statement of changes in net assets, statement of operations, and statement of 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.

Auditors' 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 to design audit procedures that are appropriate in the circumstances, but not for 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 Motor Vehicle Dealers Compensation Fund as at October 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with Canadian Accounting Standards for Not-for-Profit Organizations.

UHY McGovern Hurley LLP



Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
April 17, 2019

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MOTOR VEHICLE DEALERS COMPENSATION FUND
STATEMENT OF FINANCIAL POSITION
AS AT OCTOBER 31, 2018

	October 31, 2018 \$	October 31, 2017 \$
ASSETS		
CURRENT		
Cash - operating	292,780	185,216
- investment	13,046	21,222
Accounts receivable	9,979	-
Accrued interest receivable	5,655	5,674
Prepaid expenses	<u>6,397</u>	<u>6,343</u>
TOTAL CURRENT ASSETS	327,857	218,455
INVESTMENTS (Note 8)	<u>5,841,311</u>	<u>6,142,107</u>
TOTAL ASSETS	<u><u>6,169,168</u></u>	<u><u>6,360,562</u></u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	<u>26,681</u>	<u>31,200</u>
TOTAL LIABILITIES	<u>26,681</u>	<u>31,200</u>
NET ASSETS		
UNRESTRICTED NET ASSETS (Note 2)	<u>6,142,487</u>	<u>6,329,362</u>
TOTAL NET ASSETS AND LIABILITIES	<u><u>6,169,168</u></u>	<u><u>6,360,562</u></u>

Contingent Liabilities (Note 3)

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, 2018

	2018	2017
	\$	\$
Balance, beginning of the year	6,329,362	7,063,018
Excess of expenses over revenues	<u>(186,875)</u>	<u>(733,656)</u>
Balance, end of the year	<u><u>6,142,487</u></u>	<u><u>6,329,362</u></u>

See accompanying notes to the financial statements

MOTOR VEHICLE DEALERS COMPENSATION FUND
STATEMENT OF OPERATIONS
 FOR THE YEAR ENDED OCTOBER 31, 2018

	2018	2017
	\$	\$
REVENUES		
Participant fees	140,400	139,500
Recoveries	143,099	234,987
Other contributions (Note 4)	<u>175,466</u>	<u>22,844</u>
TOTAL REVENUES	<u>458,965</u>	<u>397,331</u>
EXPENSES		
Claims	401,746	1,111,673
Salaries and benefits (Note 4)	124,799	151,979
Governance	90,787	83,531
Legal fees	67,145	54,247
Professional fees (Note 4)	51,276	7,684
Investment management fees	34,402	37,534
Occupancy (Note 4)	10,722	10,722
Statutory trustee fees	10,185	10,800
Insurance	5,778	5,778
Consumer awareness	2,712	70,343
Office and general (Note 4)	<u>2,421</u>	<u>6,467</u>
TOTAL EXPENSES	<u>801,973</u>	<u>1,550,758</u>
Excess of expenses over revenues	<u>(343,008)</u>	<u>(1,153,427)</u>
OTHER INCOME		
Investment and other income	232,925	239,827
Fair value change in investments	<u>(76,792)</u>	<u>179,944</u>
TOTAL OTHER INCOME	<u>156,133</u>	<u>419,771</u>
EXCESS OF EXPENSES OVER REVENUES	<u>(186,875)</u>	<u>(733,656)</u>

See accompanying notes to the financial statements

MOTOR VEHICLE DEALERS COMPENSATION FUND
STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED OCTOBER 31, 2018

	2018 \$	2017 \$
CASH PROVIDED BY:		
OPERATING ACTIVITIES		
Excess of expenses over revenues, for the year	(186,875)	(733,656)
Non-cash items		
Change in fair value of investments	(104,897)	(333,218)
Changes in non-cash working capital		
Accounts receivable	(9,979)	-
Accrued interest receivable	19	12,308
Prepaid expenses	(54)	-
Claims payable	-	(54,900)
Accounts payable and accrued liabilities	<u>(4,519)</u>	<u>(42,271)</u>
Cash used in operating activities	<u>(306,305)</u>	<u>(1,151,737)</u>
INVESTING ACTIVITIES		
Cash provided by investing activities (net)	<u>405,693</u>	<u>1,227,097</u>
CHANGE IN CASH DURING THE YEAR	99,388	75,360
CASH , beginning of year	<u>206,438</u>	<u>131,078</u>
CASH , end of year	<u><u>305,826</u></u>	<u><u>206,438</u></u>
CASH consists of:		
Operating	292,780	185,216
Investment	<u>13,046</u>	<u>21,222</u>
	<u><u>305,826</u></u>	<u><u>206,438</u></u>

See accompanying notes to the financial statements

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 (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.

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 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. Fair value has been determined based on an allocation of cost as incurred by the related entity. See note 4.

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 3).

Financial Instruments:

The Fund has designated its cash and accrued interest receivable as loans and receivables recorded at amortized cost. Investments are classified as held-for-trading financial instruments and are measured at their estimated fair value, with changes in fair value recognized in excess (deficiency) of revenues over expenses for the year. Accounts payable and accrued liabilities and claims payable are classified as other financial liabilities and are recorded at amortized cost.

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2. 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.

3. CONTINGENT LIABILITIES

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.

4. 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 \$124,799 (2017 - \$151,979) relating to salaries and benefits and \$10,722 (2017 - \$10,722) relating to occupancy expenses.

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. During 2018, shared expenses with an estimated fair value of \$175,466 (2017 - \$22,844), \$124,799 relating to salaries and benefits (2017 - \$19,986), \$39,945 relating to professional fees (2017 - nil), nil relating to office and general costs (2017 - \$1,072) and \$10,722 relating to occupancy (2017 - \$1,787) 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.

5. DONATED PROPERTY AND SERVICES

On an annual basis, the Fund receives donated services. As similar services are not normally purchased by the Fund and due to the difficulty in determining their fair value, donated services are not recognized in these statements.

6. 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.

7. 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 no 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 creditworthiness of its financial institutions. Included in investments are fixed income securities with interest rates ranging from 0.75% to 11% with maturity dates ranging from 2019 to 2048.

(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 Directors 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 8.

The Fund's investments are subject to fair value fluctuations. As at October 31, 2018, if the fair value of the investments had decreased/increased by 10% with all other variables held constant, excess of expenses over revenues for the year ended October 31, 2018 would have been approximately \$584,131 higher/lower. Similarly, as at October 31, 2018, reported unrestricted net assets would have been approximately \$584,131 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 2018 and 2017.

(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.

8. INVESTMENTS

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

	2018		2017	
	Cost \$	Estimated Fair Value \$	Cost \$	Estimated Fair Value \$
Mutual Funds	3,084,876	4,579,736	3,351,858	4,951,142
Other Funds	434,867	615,044	425,822	560,039
Fixed Income	531,086	502,809	521,233	511,429
Other	<u>143,578</u>	<u>143,722</u>	<u>119,497</u>	<u>119,497</u>
Total	<u>4,194,407</u>	<u>5,841,311</u>	<u>4,418,410</u>	<u>6,142,107</u>

Fixed income investments bear interest at rates ranging from 0.75% to 11%.

The cumulative unrealized gain on investments at October 31, 2018 is \$1,646,904 (2017 - \$1,723,697).

Other funds represent amounts invested in the Yorkville Long Term Healthcare fund (the Fund). The Fund invests in Southbridge Healthcare LP which focuses on the operation, acquisition and re-development of long-term care facilities in Ontario. This is a private pooled investment (not publicly traded) and the fair market value of the Fund is estimated by the fund's management (Southbridge Group). Since the Fund trades on a monthly basis there is a timeline for the redemption of units; a 30-day notice period for redemption is required, the trade is submitted in the following month, and funds are remitted within 4-6 weeks of the trade date.

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.